

|                    | AEP Texas     |      |           |
|--------------------|---------------|------|-----------|
|                    | December 31,  |      | Remaining |
|                    | 2019          | 2018 | Recovery  |
|                    | (in millions) |      | Period    |
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| Regulatory Assets: |               |      |           |
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(a) Includes \$26 million of deferred expenses from a stipulation and settlement agreement filed in February 2020. See "2019 Texas Base Rate Case" section of Note 4 - Rate Matters for additional information.

(b) In September 2019, AEP Texas securitized \$235 million of storm-related costs. As a result of the securitization, the regulatory asset balance was transferred to Securitized Assets on the balance sheets. See "Texas Storm Cost Securitization" section of Note 4 - Rate Matters for additional information.

|   | AEP Texas     |            |           |
|---|---------------|------------|-----------|
|   | December 31,  |            | Remaining |
|   | 2019          | 2018       | Refund    |
|   | (in millions) |            | Period    |
| <hr/>   |               |            |           |
| Regulatory Liabilities:   |               |            |           |
| Noncurrent Regulatory Liabilities and<br>Deferred Investment Tax Credits    |               |            |           |
| <hr/>   |               |            |           |
| Regulatory liabilities pending final regulatory determination:              |               |            |           |
| Income Tax Related Regulatory Liabilities (a)                               |               |            |           |
| Excess ADIT Associated with Certain Depreciable Property                    | \$ 274.9      | \$ 277.1   | (b)       |
| Excess ADIT that is Not Subject to Rate Normalization Requirements          | 87.1          | 141.4      | (c)       |
| Total Regulatory Liabilities Pending Final Regulatory Determination         | 362.0         | 418.5      |           |
| <hr/>   |               |            |           |
| Regulatory liabilities approved for payment:                                |               |            |           |
| Regulatory Liabilities Currently Paying a Return                            |               |            |           |
| Asset Removal Costs   | 689.6         | 645.2      | (d)       |
| Excess Earnings   | 5.8           | 6.3        | 12 years  |
| Advanced Metering Infrastructure Surcharge                                  | 4.3           | 8.5        | 1 year    |
| Total Regulatory Liabilities Currently Paying a Return                      | 699.7         | 660.0      |           |
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| Regulatory Liabilities Currently Not Paying a Return                        |               |            |           |
| Transition and Restoration Charges  | 50.5          | 46.0       | 10 years  |
| Deferred Investment Tax Credits   | 9.6           | 10.8       | 43 years  |
| Other Regulatory Liabilities Approved for Payment                           | 4.8           | —          | various   |
| Total Regulatory Liabilities Currently Not Paying a Return                  | 64.9          | 56.8       |           |
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| Income Tax Related Regulatory Liabilities (a)                               |               |            |           |
| Excess ADIT Associated with Certain Depreciable Property                    | 236.5         | 251.8      | (e)       |
| Income Taxes Subject to Flow Through  | (46.2)        | (42.8)     | 13 years  |
| Total Income Tax Related Regulatory Liabilities                             | 190.3         | 209.0      |           |
| <hr/>   |               |            |           |
| Total Regulatory Liabilities Approved for Payment                           | 954.9         | 925.8      |           |
| <hr/>   |               |            |           |
| Total Noncurrent Regulatory Liabilities and Deferred Investment Tax Credits | \$ 1,316.9    | \$ 1,344.3 |           |

- (a) This balance primarily represents regulatory liabilities for Excess ADIT as a result of the reduction in the corporate federal income tax rate from 35% to 21% related to the enactment of Tax Reform. The regulatory liability balance predominately pays a return due to the inclusion of Excess ADIT in rate base. See "Federal Tax Reform" section of Note 12 for additional information.
- (b) Will be refunded using ARAM upon receiving an order in the 2019 Texas Base Rate Case. See "2019 Texas Base Rate Case" section of Note 4 - Rate Matters for additional information.
- (c) Includes \$71 million from a stipulation and settlement agreement filed in February 2020. See "2019 Texas Base Rate Case" section of Note 4 - Rate Matters for additional information.
- (d) Relieved as removal costs are incurred.
- (e) Refunded using ARAM.

|  |    | AEPTCo        |          |           |
|--|----|---------------|----------|-----------|
|  |    | December 31,  |          | Remaining |
|  |    | 2019          | 2018     | Recovery  |
|  |    | (in millions) |          | Period    |
| <hr/>  |    |               |          |           |
| <b>Regulatory Assets:</b>  |    |               |          |           |
| <hr/>  |    |               |          |           |
| <b>Noncurrent Regulatory Assets</b>  |    |               |          |           |
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| <b>Regulatory assets approved for recovery:</b>                            |    |               |          |           |
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| <u>Regulatory Assets Currently Not Earning a Return</u>                    |    |               |          |           |
| PJM/SPP Annual Formula Rate True Up  | \$ | 4.2           | \$ 12.9  | 2 years   |
| <b>Total Regulatory Assets Approved for Recovery</b>                       |    | 4.2           | 12.9     |           |
| <hr/>  |    |               |          |           |
| <b>Total Noncurrent Regulatory Assets</b>                                  | \$ | 4.2           | \$ 12.9  |           |
| <hr/>  |    |               |          |           |
|  |    | AEPTCo        |          |           |
|  |    | December 31,  |          | Remaining |
|  |    | 2019          | 2018     | Refund    |
|  |    | (in millions) |          | Period    |
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| <b>Regulatory Liabilities:</b>   |    |               |          |           |
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| <b>Noncurrent Regulatory Liabilities</b>                                   |    |               |          |           |
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| <b>Regulatory liabilities pending final regulatory determination:</b>      |    |               |          |           |
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| <u>Income Tax Related Regulatory Liabilities (a)</u>                       |    |               |          |           |
| Excess ADIT Associated with Certain Depreciable Property                   | \$ | —             | \$ 73.9  |           |
| Excess ADIT that is Not Subject to Rate Normalization Requirements         |    | —             | 4.5      |           |
| <b>Total Regulatory Liabilities Pending Final Regulatory Determination</b> |    | —             | 78.4     |           |
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| <b>Regulatory liabilities approved for payment:</b>                        |    |               |          |           |
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| <u>Regulatory Liabilities Currently Paying a Return</u>                    |    |               |          |           |
| Asset Removal Costs  |    | 141.0         | 99.5     | (b)       |
| <b>Total Regulatory Liabilities Currently Paying a Return</b>              |    | 141.0         | 99.5     |           |
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| <u>Income Tax Related Regulatory Liabilities (a)</u>                       |    |               |          |           |
| Excess ADIT Associated with Certain Depreciable Property                   |    | 535.7         | 453.4    | (c)       |
| Excess ADIT that is Not Subject to Rate Normalization Requirements         |    | (35.4)        | (28.5)   | 9 years   |
| Income Taxes Subject to Flow Through                                       |    | (100.4)       | (81.5)   | 44 years  |
| <b>Total Income Tax Related Regulatory Liabilities</b>                     |    | 399.9         | 343.4    |           |
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| <b>Total Regulatory Liabilities Approved for Payment</b>                   |    | 540.9         | 442.9    |           |
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| <b>Total Noncurrent Regulatory Liabilities</b>                             | \$ | 540.9         | \$ 521.3 |           |

- (a) This balance primarily represents regulatory liabilities for Excess ADIT as a result of the reduction in the corporate federal income tax rate from 35% to 21% related to the enactment of Tax Reform. The regulatory liability balance predominately pays a return due to the inclusion of Excess ADIT in rate base. See "Federal Tax Reform" section of Note 12 for additional information.
- (b) Relieved as removal costs are incurred.
- (c) Refunded using ARAM.

|  | APCo            |                 |           |
|--|-----------------|-----------------|-----------|
|  | December 31,    |                 | Remaining |
| Regulatory Assets:   | 2019            | 2018            | Recovery  |
|  | (in millions)   |                 | Period    |
| <b>Current Regulatory Assets</b>                                     |                 |                 |           |
| Under-recovered Fuel Costs, Virginia - earns a return                | \$ 36.8         | \$ 82.4         | 1 year    |
| Under-recovered Fuel Costs, West Virginia - does not earn a return   | 5.7             | 17.2            | 1 year    |
| <b>Total Current Regulatory Assets</b>                               | <b>\$ 42.5</b>  | <b>\$ 99.6</b>  |           |
| <b>Noncurrent Regulatory Assets</b>                                  |                 |                 |           |
| <b>Regulatory assets pending final regulatory approval:</b>          |                 |                 |           |
| <b>Regulatory Assets Currently Earning a Return</b>                  |                 |                 |           |
| Plant Retirement Costs - Materials and Supplies                      | \$ 0.5          | \$ 9.0          |           |
| <b>Total Regulatory Assets Currently Earning a Return</b>            | <b>0.5</b>      | <b>9.0</b>      |           |
| <b>Regulatory Assets Currently Not Earning a Return</b>              |                 |                 |           |
| Plant Retirement Costs - Asset Retirement Obligation Costs           | 30.1            | 35.3            |           |
| Other Regulatory Assets Pending Final Regulatory Approval            | —               | 0.6             |           |
| <b>Total Regulatory Assets Currently Not Earning a Return</b>        | <b>30.1</b>     | <b>35.9</b>     |           |
| <b>Total Regulatory Assets Pending Final Regulatory Approval (a)</b> | <b>30.6</b>     | <b>44.9</b>     |           |
| <b>Regulatory assets approved for recovery:</b>                      |                 |                 |           |
| <b>Regulatory Assets Currently Earning a Return</b>                  |                 |                 |           |
| Plant Retirement Costs - Unrecovered Plant - West Virginia           | 86.4            | 85.3            | 24 years  |
| Other Regulatory Assets Approved for Recovery                        | 0.5             | 1.2             | various   |
| <b>Total Regulatory Assets Currently Earning a Return</b>            | <b>86.9</b>     | <b>86.5</b>     |           |
| <b>Regulatory Assets Currently Not Earning a Return</b>              |                 |                 |           |
| Pension and OPEB Funded Status                                       | 160.8           | 172.2           | 11 years  |
| Unamortized Loss on Reacquired Debt                                  | 85.5            | 89.3            | 23 years  |
| Vegetation Management Program - West Virginia                        | 43.6            | 26.6            | 2 years   |
| Peak Demand Reduction/Energy Efficiency                              | 19.5            | 19.7            | 7 years   |
| Postemployment Benefits  | 15.9            | 18.0            | 4 years   |
| Virginia Generation Rate Adjustment Clause                           | 5.1             | 10.3            | 2 years   |
| Other Regulatory Assets Approved for Recovery                        | 9.3             | 8.3             | various   |
| <b>Total Regulatory Assets Currently Not Earning a Return</b>        | <b>339.7</b>    | <b>344.4</b>    |           |
| <b>Total Regulatory Assets Approved for Recovery</b>                 | <b>426.6</b>    | <b>430.9</b>    |           |
| <b>Total Noncurrent Regulatory Assets</b>                            | <b>\$ 457.2</b> | <b>\$ 475.8</b> |           |

- (a) In 2015, APCo recorded a \$91 million reduction, before cost of removal which was \$11 million and \$20 million as of December 31, 2019 and 2018, respectively, to Accumulated Depreciation and Amortization related to the remaining net book value of coal plants retired in 2015, primarily related to APCo's Virginia jurisdiction. The net book value of these plants at the retirement date was \$93 million before cost of removal, including materials and supplies inventory. Based on management's interpretation of Virginia law and more certainty regarding APCo's triennial revenues, expenses and resulting earnings upon reaching the end of the three-year review period, APCo recorded a pretax expense of \$93 million related to its previously retired coal-fired generation assets. This expense is included in Asset Impairments and Other Related Charges on the statements of income.

APCo is currently in the process of retiring and replacing its Virginia jurisdictional Automated Meter Reading (AMR) meters with Advanced Metering Infrastructure (AMI) meters. As of December 31, 2019, APCo has approximately \$51 million of Virginia jurisdictional AMR meters recorded in Total Property, Plant and Equipment - Net on its balance sheets. APCo intends to pursue full recovery of these assets through future depreciation rates.

|   | APCo          |         |            |
|---|---------------|---------|------------|
|   | December 31,  |         | Remaining  |
| Regulatory Liabilities:   | 2019          | 2018    | Refund     |
|   | (in millions) |         | Period     |
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| Noncurrent Regulatory Liabilities and<br>Deferred Investment Tax Credits    |               |         |            |
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| Regulatory liabilities pending final regulatory determination:              |               |         |            |
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| Income Tax Related Regulatory Liabilities (a)                               |               |         |            |
| Excess ADIT Associated with Certain Depreciable Property                    | \$            | ---     | \$ 268.2   |
| Excess ADIT that is Not Subject to Rate Normalization Requirements          |               | —       | 283.7      |
| Total Regulatory Liabilities Pending Final Regulatory Determination         |               | —       | 551.9      |
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| Regulatory liabilities approved for payment:                                |               |         |            |
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| Regulatory Liabilities Currently Paying a Return                            |               |         |            |
| Asset Removal Costs   |               | 635.3   | 618.3      |
| Deferred Investment Tax Credits   |               | 0.5     | 1.0        |
| Total Regulatory Liabilities Currently Paying a Return                      |               | 635.8   | 619.3      |
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| Regulatory Liabilities Currently Not Paying a Return                        |               |         |            |
| Virginia Transmission Rate Adjustment Clause                                |               | 28.1    | 11.3       |
| PJM Transmission Enhancement Refund   |               | 19.5    | 47.7       |
| Unrealized Gain on Forward Commitments                                      |               | 9.3     | 34.7       |
| Consumer Rate Relief - West Virginia  |               | 5.4     | 8.8        |
| Other Regulatory Liabilities Approved for Payment                           |               | 3.3     | 3.9        |
| Total Regulatory Liabilities Currently Not Paying a Return                  |               | 65.6    | 106.4      |
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| Income Tax Related Regulatory Liabilities (a)                               |               |         |            |
| Excess ADIT Associated with Certain Depreciable Property                    |               | 718.9   | 453.5      |
| Excess ADIT that is Not Subject to Rate Normalization Requirements          |               | 210.7   | 84.5       |
| Income Taxes Subject to Flow Through  |               | (362.3) | (365.9)    |
| Total Income Tax Related Regulatory Liabilities                             |               | 567.3   | 172.1      |
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| Total Regulatory Liabilities Approved for Payment                           |               | 1,268.7 | 897.8      |
| <hr/>   |               |         |            |
| Total Noncurrent Regulatory Liabilities and Deferred Investment Tax Credits | \$            | 1,268.7 | \$ 1,449.7 |

(a) This balance primarily represents regulatory liabilities for Excess ADIT as a result of the reduction in the corporate federal income tax rate from 35% to 21% related to the enactment of Tax Reform. The regulatory liability balance predominately pays a return due to the inclusion of Excess ADIT in rate base. See “Federal Tax Reform” section of Note 12 for additional information.

(b) Relieved as removal costs are incurred

(c) Refunded using ARAM

| Regulatory Assets:   | I&M           |              | Remaining<br>Recovery<br>Period |
|--|---------------|--------------|---------------------------------|
|  | December 31,  |              |                                 |
|  | 2019          | 2018         |                                 |
|  | (in millions) |              |                                 |
| <hr/>  |               |              |                                 |
| Current Regulatory Assets  |               |              |                                 |
| <hr/>  |               |              |                                 |
| Under-recovered Fuel Costs - earns a return                        | \$ 3.0        | \$ —         | 1 Year                          |
| Total Current Regulatory Assets                                    | <u>\$ 3.0</u> | <u>\$ —</u>  |                                 |
| <hr/>  |               |              |                                 |
| Noncurrent Regulatory Assets                                       |               |              |                                 |
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| Regulatory assets pending final regulatory approval:               |               |              |                                 |
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| Regulatory Assets Currently Not Earning a Return                   |               |              |                                 |
| Cook Plant Study Costs   | \$ 7.6        | \$ —         |                                 |
| Other Regulatory Assets Pending Final Regulatory Approval          | 0.1           | 3.3          |                                 |
| Total Regulatory Assets Pending Final Regulatory Approval          | <u>7.7</u>    | <u>3.3</u>   |                                 |
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| Regulatory assets approved for recovery:                           |               |              |                                 |
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| Regulatory Assets Currently Earning a Return                       |               |              |                                 |
| Plant Retirement Costs - Unrecovered Plant                         | 214.9         | 232.2        | 9 years                         |
| Cook Plant Upate Project   | 32.6          | 35.0         | 14 years                        |
| Deferred Cook Plant Life Cycle Management Project Costs - Michigan | 15.1          | 16.1         | 15 years                        |
| Cook Plant Turbine   | 13.4          | 15.8         | 19 years                        |
| Rockport Plant Dry Sorbent Injection System - Indiana              | 10.2          | 11.5         | 8 years                         |
| Cook Plant, Unit 2 Baffle Bolts - Indiana                          | 5.4           | 5.7          | 19 years                        |
| Other Regulatory Assets Approved for Recovery                      | 4.8           | 2.4          | various                         |
| Total Regulatory Assets Currently Earning a Return                 | <u>296.4</u>  | <u>318.7</u> |                                 |
| <hr/>  |               |              |                                 |
| Regulatory Assets Currently Not Earning a Return                   |               |              |                                 |
| Pension and OPEB Funded Status                                     | 67.5          | 84.9         | 11 years                        |
| Cook Plant Nuclear Refueling Outage Levelization                   | 63.8          | 37.5         | 3 years                         |
| Unamortized Loss on Reacquired Debt                                | 17.2          | 18.7         | 29 years                        |
| Postemployment Benefits  | 7.2           | 6.5          | 4 years                         |
| PJM Costs and Off-system Sales Margin Shating - Indiana            | —             | 20.1         |                                 |
| Other Regulatory Assets Approved for Recovery                      | 22.3          | 22.8         | various                         |
| Total Regulatory Assets Currently Not Earning a Return             | <u>178.0</u>  | <u>190.5</u> |                                 |
| <hr/>  |               |              |                                 |
| Total Regulatory Assets Approved for Recovery                      | <u>474.4</u>  | <u>509.2</u> |                                 |
| <hr/>  |               |              |                                 |
| Total Noncurrent Regulatory Assets                                 | \$ 482.1      | \$ 512.5     |                                 |

|  | I&M               |                   |           |
|--|-------------------|-------------------|-----------|
|  | December 31,      |                   | Remaining |
|  | 2019              | 2018              | Refund    |
|  | (in millions)     |                   | Period    |
| <b>Regulatory Liabilities:</b>   |                   |                   |           |
| <b>Current Regulatory Liabilities</b>  |                   |                   |           |
| Over-recovered Fuel Costs, Michigan - pays a return                                | \$ —              | \$ 4 5            |           |
| Over-recovered Fuel Costs, Indiana - does not pay a return                         | 6 1               | 22 9              | 1 year    |
| <b>Total Current Regulatory Liabilities</b>  | <b>\$ 6 1</b>     | <b>\$ 27.4</b>    |           |
| <b>Noncurrent Regulatory Liabilities and<br/>Deferred Investment Tax Credits</b>   |                   |                   |           |
| <b>Regulatory liabilities pending final regulatory determination:</b>              |                   |                   |           |
| <u>Income Tax Related Regulatory Liabilities (a)</u>                               |                   |                   |           |
| Excess ADIT Associated with Certain Depreciable Property                           | \$ —              | \$ 125.0          |           |
| Excess ADIT that is Not Subject to Rate Normalization Requirements                 | —                 | 40 6              |           |
| <b>Total Regulatory Liabilities Pending Final Regulatory Determination</b>         | <b>—</b>          | <b>165 6</b>      |           |
| <b>Regulatory liabilities approved for payment:</b>                                |                   |                   |           |
| <u>Regulatory Liabilities Currently Paying a Return</u>                            |                   |                   |           |
| Asset Removal Costs  | 166 7             | 182 5             | (b)       |
| Other Regulatory Liabilities Approved for Payment                                  | 0.3               | —                 | various   |
| <b>Total Regulatory Liabilities Currently Paying a Return</b>                      | <b>167 0</b>      | <b>182 5</b>      |           |
| <u>Regulatory Liabilities Currently Not Paying a Return</u>                        |                   |                   |           |
| Excess Nuclear Decommissioning Funding   | 1,236 0           | 828 5             | (c)       |
| Spent Nuclear Fuel   | 43.6              | 42.9              | (c)       |
| Deferred Investment Tax Credits  | 25 8              | 29 4              | 20 years  |
| PJM Costs and Off-system Sales Margin Sharing - Indiana                            | 17 0              | —                 | 2 years   |
| PJM Transmission Enhancement Refund  | 11 8              | 29 1              | 6 years   |
| Deferred Gain on Sale of Rockport Unit 2   | 10.9              | —                 | 3 years   |
| Other Regulatory Liabilities Approved for Payment                                  | 24 9              | 24 0              | various   |
| <b>Total Regulatory Liabilities Currently Not Paying a Return</b>                  | <b>1,370.0</b>    | <b>953 9</b>      |           |
| <u>Income Tax Related Regulatory Liabilities (a)</u>                               |                   |                   |           |
| Excess ADIT Associated with Certain Depreciable Property                           | 470.9             | 362 0             | (d)       |
| Excess ADIT that is Not Subject to Rate Normalization Requirements                 | 184 5             | 192 6             | 5 years   |
| Income Taxes Subject to Flow Through   | (301.0)           | (282 1)           | 19 years  |
| <b>Total Income Tax Related Regulatory Liabilities</b>                             | <b>354.4</b>      | <b>272 5</b>      |           |
| <b>Total Regulatory Liabilities Approved for Payment</b>                           | <b>1,891.4</b>    | <b>1,408.9</b>    |           |
| <b>Total Noncurrent Regulatory Liabilities and Deferred Investment Tax Credits</b> | <b>\$ 1,891 4</b> | <b>\$ 1,574.5</b> |           |

- (a) This balance primarily represents regulatory liabilities for Excess ADIT as a result of the reduction in the corporate federal income tax rate from 35% to 21% related to the enactment of Tax Reform. The regulatory liability balance predominately pays a return due to the inclusion of Excess ADIT in rate base. See "Federal Tax Reform" section of Note 12 for additional information.
- (b) Relieved as removal costs are incurred.
- (c) Relieved when plant is decommissioned.
- (d) Refunded using ARAM.

|  | OPCo            |                 |           |
|--|-----------------|-----------------|-----------|
|  | December 31,    |                 | Remaining |
|  | 2019            | 2018            | Recovery  |
|  | (in millions)   |                 | Period    |
| Regulatory Assets:   |                 |                 |           |
| <b>Current Regulatory Assets</b>                                 |                 |                 |           |
| Under-recovered Fuel Costs - earns a return                      | \$ ---          | \$ 0.4          |           |
| <b>Total Current Regulatory Assets</b>                           | <b>\$ ---</b>   | <b>\$ 0.4</b>   |           |
| <b>Noncurrent Regulatory Assets</b>                              |                 |                 |           |
| <b>Regulatory assets pending final regulatory approval:</b>      |                 |                 |           |
| <b>Regulatory Assets Currently Not Earning a Return</b>          |                 |                 |           |
| Other Regulatory Assets Pending Final Regulatory Approval        | \$ 0.1          | \$ 1.0          |           |
| <b>Total Regulatory Assets Pending Final Regulatory Approval</b> | <b>0.1</b>      | <b>1.0</b>      |           |
| <b>Regulatory assets approved for recovery:</b>                  |                 |                 |           |
| <b>Regulatory Assets Currently Earning a Return</b>              |                 |                 |           |
| Ohio Distribution Decoupling                                     | 31.4            | 12.3            | 2 years   |
| Ohio Capacity Deferral   | —               | 57.8            |           |
| Other Regulatory Assets Approved for Recovery                    | —               | 0.9             |           |
| <b>Total Regulatory Assets Currently Earning a Return</b>        | <b>31.4</b>     | <b>71.0</b>     |           |
| <b>Regulatory Assets Currently Not Earning a Return</b>          |                 |                 |           |
| Pension and OPEB Funded Status                                   | 167.3           | 181.5           | 11 years  |
| Unrealized Loss on Forward Commitments                           | 103.6           | 100.2           | 13 years  |
| Smart Grid Costs   | 13.7            | 8.1             | 2 years   |
| Distribution Investment Rider                                    | 10.9            | —               | 2 years   |
| Postemployment Benefits  | 7.6             | 7.9             | 4 years   |
| Unamortized Loss on Reacquired Debt                              | 5.3             | 6.5             | 19 years  |
| Other Regulatory Assets Approved for Recovery                    | 11.9            | 11.3            | various   |
| <b>Total Regulatory Assets Currently Not Earning a Return</b>    | <b>320.3</b>    | <b>315.5</b>    |           |
| <b>Total Regulatory Assets Approved for Recovery</b>             | <b>351.7</b>    | <b>386.5</b>    |           |
| <b>Total Noncurrent Regulatory Assets</b>                        | <b>\$ 351.8</b> | <b>\$ 387.5</b> |           |



Regulatory Liabilities:

**Current Regulatory Liabilities**

Over-recovered Fuel Costs - does not pay a return

**Total Current Regulatory Liabilities**

**Noncurrent Regulatory Liabilities and  
Deferred Investment Tax Credits**

**Regulatory liabilities pending final regulatory determination:**

Regulatory Liabilities Currently Not Paying a Return

Other Regulatory Liabilities Pending Final Regulatory Determination

**Total Regulatory Liabilities Pending Final Regulatory Determination**

**Regulatory liabilities approved for payment:**

Regulatory Liabilities Currently Paying a Return

Asset Removal Costs

Ohio Basic Transmission Cost Rider

Other Regulatory Liabilities Approved for Payment

**Total Regulatory Liabilities Currently Paying a Return**

Regulatory Liabilities Currently Not Paying a Return

Ohio Enhanced Service Reliability Plan

PJM Transmission Enhancement Refund

Peak Demand Reduction/Energy Efficiency

Distribution Investment Rider

Other Regulatory Liabilities Approved for Payment

**Total Regulatory Liabilities Currently Not Paying a Return**

Income Tax Related Regulatory Liabilities (a)

Excess ADIT Associated with Certain Depreciable Property

Excess ADIT that is Not Subject to Rate Normalization Requirements

Income Taxes Subject to Flow Through

**Total Income Tax Related Regulatory Liabilities**

**Total Regulatory Liabilities Approved for Payment**

**Total Noncurrent Regulatory Liabilities and Deferred Investment Tax Credits**

| OPCo   |                   | Remaining<br>Refund<br>Period |
|--|-------------------|-------------------------------|
| December 31,<br>2019   | 2018              |                               |
| (in millions)  |                   |                               |
| <b>Current Regulatory Liabilities</b>  |                   |                               |
| Over-recovered Fuel Costs - does not pay a return                                  | \$ 2.8            | \$ — 1 year                   |
| <b>Total Current Regulatory Liabilities</b>  | <b>\$ 2.8</b>     | <b>\$ —</b>                   |
| <b>Noncurrent Regulatory Liabilities and<br/>Deferred Investment Tax Credits</b>   |                   |                               |
| <b>Regulatory liabilities pending final regulatory determination:</b>              |                   |                               |
| <u>Regulatory Liabilities Currently Not Paying a Return</u>                        |                   |                               |
| Other Regulatory Liabilities Pending Final Regulatory Determination                | \$ 0.2            | \$ 0.2                        |
| <b>Total Regulatory Liabilities Pending Final Regulatory Determination</b>         | <b>0.2</b>        | <b>0.2</b>                    |
| <b>Regulatory liabilities approved for payment:</b>                                |                   |                               |
| <u>Regulatory Liabilities Currently Paying a Return</u>                            |                   |                               |
| Asset Removal Costs  | 446.3             | 436.6 (b)                     |
| Ohio Basic Transmission Cost Rider   | 37.2              | 68.8 2 years                  |
| Other Regulatory Liabilities Approved for Payment                                  | 1.3               | 0.4 various                   |
| <b>Total Regulatory Liabilities Currently Paying a Return</b>                      | <b>484.8</b>      | <b>505.8</b>                  |
| <u>Regulatory Liabilities Currently Not Paying a Return</u>                        |                   |                               |
| Ohio Enhanced Service Reliability Plan   | 29.7              | 43.1 2 years                  |
| PJM Transmission Enhancement Refund  | 29.4              | 71.3 6 years                  |
| Peak Demand Reduction/Energy Efficiency  | 19.7              | 14.9 2 years                  |
| Distribution Investment Rider  | —                 | 7.8                           |
| Other Regulatory Liabilities Approved for Payment                                  | 2.9               | 11.3 various                  |
| <b>Total Regulatory Liabilities Currently Not Paying a Return</b>                  | <b>81.7</b>       | <b>148.4</b>                  |
| <u>Income Tax Related Regulatory Liabilities (a)</u>                               |                   |                               |
| Excess ADIT Associated with Certain Depreciable Property                           | 341.6             | 350.5 (c)                     |
| Excess ADIT that is Not Subject to Rate Normalization Requirements                 | 252.3             | 279.1 9 years                 |
| Income Taxes Subject to Flow Through   | (69.7)            | (62.8) 28 years               |
| <b>Total Income Tax Related Regulatory Liabilities</b>                             | <b>524.2</b>      | <b>566.8</b>                  |
| <b>Total Regulatory Liabilities Approved for Payment</b>                           | <b>1,090.7</b>    | <b>1,221.0</b>                |
| <b>Total Noncurrent Regulatory Liabilities and Deferred Investment Tax Credits</b> | <b>\$ 1,090.9</b> | <b>\$ 1,221.2</b>             |

- (a) This balance primarily represents regulatory liabilities for Excess ADIT as a result of the reduction in the corporate federal income tax rate from 35% to 21% related to the enactment of Tax Reform. The regulatory liability balance predominately pays a return due to the inclusion of Excess ADIT in rate base. See "Federal Tax Reform" section of Note 12 for additional information.
- (b) Relieved as removal costs are incurred.
- (c) Refunded using ARAM.

Regulatory Assets:

**Noncurrent Regulatory Assets**

**Regulatory assets pending final regulatory approval:**

Regulatory Assets Currently Earning a Return

Oklahoma Power Station Accelerated Depreciation

\$ 27.4 \$ 5.5

**Total Regulatory Assets Currently Earning a Return**

27.4 5.5

Regulatory Assets Currently Not Earning a Return

Storm-Related Costs

7.2 —

Other Regulatory Assets Pending Final Regulatory Approval

— 0.5

**Total Regulatory Assets Currently Not Earning a Return**

7.2 0.5

**Total Regulatory Assets Pending Final Regulatory Approval**

34.6 6.0

**Regulatory assets approved for recovery:**

Regulatory Assets Currently Earning a Return

Plant Retirement Costs - Unrecovered Plant

167.0 153.4 21 years

Meter Replacement Costs

30.2 34.3 8 years

Environmental Control Projects

27.8 29.2 21 years

Storm-Related Costs

21.3 31.1 3 years

Red Rock Generating Facility

8.4 8.6 37 years

Other Regulatory Assets Approved for Recovery

0.6 0.5 various

**Total Regulatory Assets Currently Earning a Return**

255.3 257.1

Regulatory Assets Currently Not Earning a Return

Pension and OPEB Funded Status

73.4 84.3 11 years

Unamortized Loss on Reacquired Debt

6.5 4.3 15 years

Peak Demand Reduction/Energy Efficiency

— 6.3

Other Regulatory Assets Approved for Recovery

5.4 11.0 various

**Total Regulatory Assets Currently Not Earning a Return**

85.3 105.9

**Total Regulatory Assets Approved for Recovery**

340.6 363.0

**Total Noncurrent Regulatory Assets**

\$ 375.2 \$ 369.0

|   | PSO           |          |           |
|---|---------------|----------|-----------|
|   | December 31,  |          | Remaining |
|   | 2019          | 2018     | Refund    |
|   | (in millions) |          | Period    |
| Regulatory Liabilities:   |               |          |           |
| Current Regulatory Liabilities  |               |          |           |
| Over-recovered Fuel Costs - pays a return                                   | \$ 63.9       | \$ 20.1  | 1 year    |
| Total Current Regulatory Liabilities  | \$ 63.9       | \$ 20.1  |           |
| Noncurrent Regulatory Liabilities and<br>Deferred Investment Tax Credits    |               |          |           |
| Regulatory liabilities approved for payment:                                |               |          |           |
| Regulatory Liabilities Currently Paying a Return                            |               |          |           |
| Asset Removal Costs   | \$ 286.8      | \$ 276.8 | (b)       |
| Total Regulatory Liabilities Currently Paying a Return                      | 286.8         | 276.8    |           |
| Regulatory Liabilities Currently Not Paying a Return                        |               |          |           |
| Deferred Investment Tax Credits   | 51.5          | 51.5     | 25 years  |
| Other Regulatory Liabilities Approved for Payment                           | 4.7           | 2.5      | various   |
| Total Regulatory Liabilities Currently Not Paying a Return                  | 56.2          | 54.0     |           |
| Income Tax Related Regulatory Liabilities (a)                               |               |          |           |
| Excess ADIT Associated with Certain Depreciable Property                    | 405.8         | 415.2    | (c)       |
| Excess ADIT that is Not Subject to Rate Normalization Requirements          | 96.3          | 126.4    | 5 years   |
| Income Taxes Subject to Flow Through  | (7.9)         | (7.7)    | 24 years  |
| Total Income Tax Related Regulatory Liabilities                             | 494.2         | 533.9    |           |
| Total Regulatory Liabilities Approved for Payment                           | 837.2         | 864.7    |           |
| Total Noncurrent Regulatory Liabilities and Deferred Investment Tax Credits | \$ 837.2      | \$ 864.7 |           |

- (a) This balance primarily represents regulatory liabilities for Excess ADIT as a result of the reduction in the corporate federal income tax rate from 35% to 21% related to the enactment of Tax Reform. The regulatory liability balance predominately pays a return due to the inclusion of Excess ADIT in rate base. See "Federal Tax Reform" section of Note 12 for additional information.
- (b) Relieved as removal costs are incurred.
- (c) Refunded using ARAM.

|   | SWEPCo        |          |           |
|---|---------------|----------|-----------|
|   | December 31,  |          | Remaining |
|   | 2019          | 2018     | Recovery  |
|   | (in millions) |          | Period    |
| Regulatory Assets:  |               |          |           |
| Current Regulatory Assets                                 |               |          |           |
| Under-recovered Fuel Costs - earns a return (a)           | \$ 4.9        | \$ 18.8  | 1 year    |
| Total Current Regulatory Assets                           | \$ 4.9        | \$ 18.8  |           |
| Noncurrent Regulatory Assets                              |               |          |           |
| Regulatory assets pending final regulatory approval:      |               |          |           |
| Regulatory Assets Currently Earning a Return              |               |          |           |
| Plant Retirement Costs - Unrecovered Plant, Louisiana     | \$ 35.2       | \$ 50.3  |           |
| Other Regulatory Assets Pending Final Regulatory Approval | 0.2           | 0.3      |           |
| Total Regulatory Assets Currently Earning a Return        | 35.4          | 50.6     |           |
| Regulatory Assets Currently Not Earning a Return          |               |          |           |
| Asset Retirement Obligation - Louisiana                   | 7.2           | 5.3      |           |
| Rate Case Expense - Texas                                 | 1.0           | 4.9      |           |
| Other Regulatory Assets Pending Final Regulatory Approval | 2.7           | 3.6      |           |
| Total Regulatory Assets Currently Not Earning a Return    | 10.9          | 13.8     |           |
| Total Regulatory Assets Pending Final Regulatory Approval | 46.3          | 64.4     |           |
| Regulatory assets approved for recovery:                  |               |          |           |
| Regulatory Assets Currently Earning a Return              |               |          |           |
| Plant Retirement Costs - Unrecovered Plant, Arkansas      | 15.1          | —        | 23 years  |
| Environmental Controls Projects                           | 13.2          | 14.2     | 13 years  |
| Other Regulatory Assets Approved for Recovery             | 8.9           | 7.2      | various   |
| Total Regulatory Assets Currently Earning a Return        | 37.2          | 21.4     |           |
| Regulatory Assets Currently Not Earning a Return          |               |          |           |
| Pension and OPEB Funded Status                            | 102.6         | 108.4    | 11 years  |
| Plant Retirement Costs - Unrecovered Plant, Texas         | 16.6          | 17.1     | 22 years  |
| Unamortized Loss on Reacquired Debt                       | 6.6           | 7.4      | 24 years  |
| Rate Case Expense - Arkansas                              | 5.2           | 0.8      | 5 years   |
| Other Regulatory Assets Approved for Recovery             | 7.9           | 11.3     | various   |
| Total Regulatory Assets Currently Not Earning a Return    | 138.9         | 145.0    |           |
| Total Regulatory Assets Approved for Recovery             | 176.1         | 166.4    |           |
| Total Noncurrent Regulatory Assets                        | \$ 222.4      | \$ 230.8 |           |

(a) December 31, 2019 amount includes Arkansas jurisdiction. December 31, 2018 amount includes Arkansas and Louisiana jurisdictions.

|   | SWEPCo        |          |           |
|---|---------------|----------|-----------|
|   | December 31,  |          | Remaining |
|   | 2019          | 2018     | Refund    |
|   | (in millions) |          | Period    |
| Regulatory Liabilities:   |               |          |           |
|   |               |          |           |
| Current Regulatory Liabilities  |               |          |           |
| Over-recovered Fuel Costs - pays a return (a)                               | \$ 13.6       | \$ 11.1  | 1 year    |
| Total Current Regulatory Liabilities  | \$ 13.6       | \$ 11.1  |           |
|   |               |          |           |
| Noncurrent Regulatory Liabilities and<br>Deferred Investment Tax Credits    |               |          |           |
| Regulatory liabilities pending final regulatory determination:              |               |          |           |
|   |               |          |           |
| Income Tax Related Regulatory Liabilities (b)                               |               |          |           |
| Excess ADIT Associated with Certain Depreciable Property                    | \$ 297.0      | \$ 280.1 |           |
| Excess ADIT that is Not Subject to Rate Normalization Requirements          | 22.7          | 26.9     |           |
| Total Regulatory Liabilities Pending Final Regulatory Determination         | 319.7         | 307.0    |           |
|   |               |          |           |
| Regulatory liabilities approved for payment:                                |               |          |           |
|   |               |          |           |
| Regulatory Liabilities Currently Paying a Return                            |               |          |           |
| Asset Removal Costs   | 453.4         | 437.8    | (c)       |
| Other Regulatory Liabilities Approved for Payment                           | 2.8           | 2.5      | various   |
| Total Regulatory Liabilities Currently Paying a Return                      | 456.2         | 440.3    |           |
| Regulatory Liabilities Currently Not Paying a Return                        |               |          |           |
| Peak Demand Reduction/Energy Efficiency                                     | 6.0           | 2.5      | 2 years   |
| Deferred Investment Tax Credits   | 3.1           | 4.5      | 12 years  |
| Other Regulatory Liabilities Approved for Payment                           | 1.7           | 2.4      | various   |
| Total Regulatory Liabilities Currently Not Paying a Return                  | 10.8          | 9.4      |           |
| Income Tax Related Regulatory Liabilities (b)                               |               |          |           |
| Excess ADIT Associated with Certain Depreciable Property                    | 339.4         | 370.5    | (d)       |
| Excess ADIT that is Not Subject to Rate Normalization Requirements          | 27.8          | 54.3     | 1 year    |
| Income Taxes Subject to Flow Through  | (261.6)       | (258.5)  | 28 years  |
| Total Income Tax Related Regulatory Liabilities                             | 105.6         | 166.3    |           |
|   |               |          |           |
| Total Regulatory Liabilities Approved for Payment                           | 572.6         | 616.0    |           |
|   |               |          |           |
| Total Noncurrent Regulatory Liabilities and Deferred Investment Tax Credits | \$ 892.3      | \$ 923.0 |           |

- (a) December 31, 2019 amount includes Texas and Louisiana jurisdictions. December 31, 2018 amount includes Texas jurisdiction.
- (b) This balance primarily represents regulatory liabilities for Excess ADIT as a result of the reduction in the corporate federal income tax rate from 35% to 21% related to the enactment of Tax Reform. The regulatory liability balance predominately pays a return due to the inclusion of Excess ADIT in rate base. See "Federal Tax Reform" section of Note 12 for additional information.
- (c) Relieved as removal costs are incurred.
- (d) Refunded using ARAM.

## 6. COMMITMENTS, GUARANTEES AND CONTINGENCIES

The disclosures in this note apply to all Registrants unless indicated otherwise.

The Registrants are subject to certain claims and legal actions arising in the ordinary course of business. In addition, the Registrants business activities are subject to extensive governmental regulation related to public health and the environment. The ultimate outcome of such pending or potential litigation against the Registrants cannot be predicted. Management accrues contingent liabilities only when management concludes that it is both probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. When management determines that it is not probable, but rather reasonably possible that a liability has been incurred at the date of the financial statements, management discloses such contingencies and the possible loss or range of loss if such estimate can be made. Any estimated range is based on currently available information and involves elements of judgment and significant uncertainties. Any estimated range of possible loss may not represent the maximum possible loss exposure. Circumstances change over time and actual results may vary significantly from estimates.

For current proceedings not specifically discussed below, management does not anticipate that the liabilities, if any, arising from such proceedings would have a material effect on the financial statements.

### COMMITMENTS (Applies to all Registrants except AEP Texas and AEPTCo)

The AEP System has substantial commitments for fuel, energy and capacity contracts as part of the normal course of business. Certain contracts contain penalty provisions for early termination.

In accordance with the accounting guidance for "Commitments", the following tables summarize the Registrants' actual contractual commitments as of December 31, 2019:

| Contractual Commitments - AEP          | Less Than<br>1 Year | 2-3 Years         | 4-5 Years       | After<br>5 Years  | Total             |
|--|---------------------|-------------------|-----------------|-------------------|-------------------|
|  | (in millions)       |                   |                 |                   |                   |
| Fuel Purchase Contracts (a)            | \$ 1,047.0          | \$ 1,105.0        | \$ 234.4        | \$ 111.4          | \$ 2,497.8        |
| Energy and Capacity Purchase Contracts | 227.8               | 353.2             | 273.5           | 1,080.0           | 1,934.5           |
| <b>Total</b>                           | <b>\$ 1,274.8</b>   | <b>\$ 1,458.2</b> | <b>\$ 507.9</b> | <b>\$ 1,191.4</b> | <b>\$ 4,432.3</b> |

| Contractual Commitments - APCo         | Less Than<br>1 Year | 2-3 Years       | 4-5 Years      | After<br>5 Years | Total             |
|--|---------------------|-----------------|----------------|------------------|-------------------|
|  | (in millions)       |                 |                |                  |                   |
| Fuel Purchase Contracts (a)            | \$ 415.3            | \$ 369.2        | \$ 4.6         | \$ 0.3           | \$ 789.4          |
| Energy and Capacity Purchase Contracts | 35.4                | 72.1            | 73.7           | 275.5            | 456.7             |
| <b>Total</b>                           | <b>\$ 450.7</b>     | <b>\$ 441.3</b> | <b>\$ 78.3</b> | <b>\$ 275.8</b>  | <b>\$ 1,246.1</b> |

| Contractual Commitments - I&M          | Less Than<br>1 Year | 2-3 Years       | 4-5 Years       | After<br>5 Years | Total             |
|--|---------------------|-----------------|-----------------|------------------|-------------------|
|  | (in millions)       |                 |                 |                  |                   |
| Fuel Purchase Contracts (a)            | \$ 299.8            | \$ 340.7        | \$ 211.6        | \$ 67.2          | \$ 919.3          |
| Energy and Capacity Purchase Contracts | 151.0               | 340.5           | 60.4            | 289.2            | 841.1             |
| <b>Total</b>                           | <b>\$ 450.8</b>     | <b>\$ 681.2</b> | <b>\$ 272.0</b> | <b>\$ 356.4</b>  | <b>\$ 1,760.4</b> |

| Contractual Commitments - OPCo         | Less Than<br>1 Year | 2-3 Years | 4-5 Years | After<br>5 Years | Total    |
|--|---------------------|-----------|-----------|------------------|----------|
|  | (in millions)       |           |           |                  |          |
| Energy and Capacity Purchase Contracts | \$ 29.0             | \$ 58.6   | \$ 58.8   | \$ 302.5         | \$ 448.9 |

| Contractual Commitments - PSO          | Less Than<br>1 Year | 2-3 Years       | 4-5 Years      | After<br>5 Years | Total           |
|--|---------------------|-----------------|----------------|------------------|-----------------|
|  | (in millions)       |                 |                |                  |                 |
| Fuel Purchase Contracts (a)            | \$ 52.3             | \$ 42.8         | \$ —           | \$ —             | \$ 95.1         |
| Energy and Capacity Purchase Contracts | 93.0                | 132.3           | 65.2           | 193.3            | 483.8           |
| <b>Total</b>                           | <b>\$ 145.3</b>     | <b>\$ 175.1</b> | <b>\$ 65.2</b> | <b>\$ 193.3</b>  | <b>\$ 578.9</b> |

| Contractual Commitments - SWEPCo       | Less Than<br>1 Year | 2-3 Years       | 4-5 Years      | After<br>5 Years | Total           |
|--|---------------------|-----------------|----------------|------------------|-----------------|
|  | (in millions)       |                 |                |                  |                 |
| Fuel Purchase Contracts (a)            | \$ 130.4            | \$ 147.4        | \$ 4.5         | \$ —             | \$ 282.3        |
| Energy and Capacity Purchase Contracts | 14.0                | 12.5            | 8.4            | 8.4              | 43.3            |
| <b>Total</b>                           | <b>\$ 144.4</b>     | <b>\$ 159.9</b> | <b>\$ 12.9</b> | <b>\$ 8.4</b>    | <b>\$ 325.6</b> |

(a) Represents contractual commitments to purchase coal, natural gas, uranium and other consumables as fuel for electric generation along with related transportation of the fuel.

#### **GUARANTEES**

Liabilities for guarantees are recorded in accordance with the accounting guidance for “Guarantees.” There is no collateral held in relation to any guarantees. In the event any guarantee is drawn, there is no recourse to third-parties unless specified below.

##### ***Letters of Credit (Applies to AEP, AEP Texas and OPCo)***

Standby letters of credit are entered into with third-parties. These letters of credit are issued in the ordinary course of business and cover items such as natural gas and electricity risk management contracts, construction contracts, insurance programs, security deposits and debt service reserves.

AEP has a \$4 billion revolving credit facility due in June 2022, under which up to \$1.2 billion may be issued as letters of credit on behalf of subsidiaries. As of December 31, 2019, no letters of credit were issued under the revolving credit facility.

An uncommitted facility gives the issuer of the facility the right to accept or decline each request made under the facility. AEP issues letters of credit on behalf of subsidiaries under six uncommitted facilities totaling \$405 million. The Registrants’ maximum future payments for letters of credit issued under the uncommitted facilities as of December 31, 2019 were as follows:

| Company   | Amount        | Maturity                      |
|-----------|---------------|-------------------------------|
|           | (in millions) |                               |
| AEP       | \$ 206.8      | January 2020 to December 2020 |
| AEP Texas | 2.2           | July 2020                     |
| OPCo      | 1.6           | April 2020 to September 2020  |

##### ***Guarantees of Equity Method Investees (Applies to AEP)***

In April 2019, AEP acquired Semptra Renewables LLC. See “Acquisitions” section of Note 7 for additional information.

##### ***Indemnifications and Other Guarantees***

###### ***Contracts***

The Registrants enter into certain types of contracts which require indemnifications. Typically these contracts include, but are not limited to, sale agreements, lease agreements, purchase agreements and financing agreements. Generally, these agreements may include, but are not limited to, indemnifications around certain tax, contractual and environmental matters. With respect to sale agreements, exposure generally does not exceed the sale price. As of December 31, 2019, there were no material liabilities recorded for any indemnifications.

AEPSC conducts power purchase and sale activity on behalf of APCo, I&M, KPCo and WPCo, who are jointly and severally liable for activity conducted on their behalf. AEPSC also conducts power purchase and sale activity on behalf of PSO and SWEPCo, who are jointly and severally liable for activity conducted on their behalf.

#### *Lease Obligations*

Certain Registrants lease equipment under master lease agreements. See “Master Lease Agreements” and “AEPRO Boat and Barge Leases” sections of Note 13 for additional information.

### **ENVIRONMENTAL CONTINGENCIES (Applies to All Registrants except AEPTCo)**

#### ***The Comprehensive Environmental Response Compensation and Liability Act (Superfund) and State Remediation***

By-products from the generation of electricity include materials such as ash, slag, sludge, low-level radioactive waste and SNF. Coal combustion by-products, which constitute the overwhelming percentage of these materials, are typically treated and deposited in captive disposal facilities or are beneficially utilized. In addition, the generation plants and transmission and distribution facilities have used asbestos, polychlorinated biphenyls and other hazardous and non-hazardous materials. The Registrants currently incur costs to dispose of these substances safely.

Superfund addresses clean-up of hazardous substances that are released to the environment. The Federal EPA administers the clean-up programs. Several states enacted similar laws. As of December 31, 2019, APCo, OPCo and SWEPCo are named as a Potentially Responsible Party (PRP) for one, three, and one sites, respectively, by the Federal EPA for which alleged liability is unresolved. There are 11 additional sites for which APCo, I&M, KPCo, OPCo and SWEPCo received information requests which could lead to PRP designation. I&M has also been named potentially liable at three sites under state law. In those instances where a PRP or defendant has been named, disposal or recycling activities were in accordance with the then-applicable laws and regulations. Superfund does not recognize compliance as a defense, but imposes strict liability on parties who fall within its broad statutory categories. Liability has been resolved for a number of sites with no significant effect on net income.

Management evaluates the potential liability for each Superfund site separately, but several general statements can be made about potential future liability. Allegations that materials were disposed at a particular site are often unsubstantiated and the quantity of materials deposited at a site can be small and often non-hazardous. Although Superfund liability has been interpreted by the courts as joint and several, typically many parties are named as PRPs for each site and several of the parties are financially sound enterprises. As of December 31, 2019, management’s estimates do not anticipate material clean-up costs for identified Superfund sites.

### **NUCLEAR CONTINGENCIES (APPLIES TO AEP AND I&M)**

I&M owns and operates the two-unit 2,288 MW Cook Plant under licenses granted by the NRC. I&M has a significant future financial commitment to dispose of SNF and to safely decommission and decontaminate the plant. The licenses to operate the two nuclear units at the Cook Plant expire in 2034 and 2037. The operation of a nuclear facility also involves special risks, potential liabilities and specific regulatory and safety requirements. By agreement, I&M is partially liable, together with all other electric utility companies that own nuclear generation units, for a nuclear power plant incident at any nuclear plant in the U.S. Should a nuclear incident occur at any nuclear power plant in the U.S., the resultant liability could be substantial.

#### ***Decommissioning and Low-Level Waste Accumulation Disposal***

The costs to decommission a nuclear plant are affected by NRC regulations and the SNF disposal program. Decommissioning costs are accrued over the service life of Cook Plant. The most recent decommissioning cost study was performed in 2018. According to that study, the estimated cost of decommissioning and disposal of low-level radioactive waste was \$2 billion in 2018 non-discounted dollars, with additional ongoing costs of \$6 million per year for post decommissioning storage of SNF and an eventual cost of \$37 million for the subsequent



decommissioning of the SNF storage facility, also in 2018 non-discounted dollars. I&M recovers estimated decommissioning costs for the Cook Plant in its rates. The amounts recovered in rates were \$7 million, \$8 million and \$9 million for the years ended December 31, 2019, 2018 and 2017, respectively. Decommissioning costs recovered from customers are deposited in external trusts.

As of December 31, 2019 and 2018, the total decommissioning trust fund balances were \$2.7 billion and \$2.2 billion, respectively. Trust fund earnings increase the fund assets and decrease the amount remaining to be recovered from customers. The decommissioning costs (including unrealized gains and losses, interest and trust funds expenses) increase or decrease the recorded liability.

I&M continues to work with regulators and customers to recover the remaining estimated costs of decommissioning the Cook Plant. However, future net income and cash flows would be reduced and financial condition could be impacted if the cost of SNF disposal and decommissioning continues to increase and cannot be recovered.

#### ***Spent Nuclear Fuel Disposal***

The federal government is responsible for permanent SNF disposal and assesses fees to nuclear plant owners for SNF disposal. A fee of one-mill per KWh for fuel consumed after April 6, 1983 at the Cook Plant was collected from customers and remitted to the DOE through May 14, 2014. In May 2014, pursuant to court order from the U.S Court of Appeals for the District of Columbia Circuit, the DOE adjusted the fee to \$0. As of December 31, 2019 and 2018, fees and related interest of \$280 million and \$274 million, respectively, for fuel consumed prior to April 7, 1983 were recorded as Long-term Debt and funds collected from customers along with related earnings totaling \$323 million and \$317 million, respectively, to pay the fee were recorded as part of Spent Nuclear Fuel and Decommissioning Trusts on the balance sheets. I&M has not paid the government the pre-April 1983 fees due to continued delays and uncertainties related to the federal disposal program.

In 2011, I&M signed a settlement agreement with the federal government which permits I&M to make annual filings to recover certain SNF storage costs incurred as a result of the government's delay in accepting SNF for permanent storage. Under the settlement agreement, I&M received \$8 million, \$11 million and \$22 million in 2019, 2018 and 2017, respectively, to recover costs and will be eligible to receive additional payment of annual claims for allowed costs that are incurred through December 31, 2019. The proceeds reduced costs for dry cask storage. As of December 31, 2019 and 2018, I&M deferred \$24 million and \$8 million, respectively, in Prepayments and Other Current Assets and \$1 million and \$23 million, respectively, in Deferred Charges and Other Noncurrent Assets on the balance sheets for dry cask storage and related operation and maintenance costs for recovery under this agreement. See "Fair Value Measurements of Trust Assets for Decommissioning and SNF Disposal" section of Note 11 for additional information.

#### ***Nuclear Insurance***

I&M carries nuclear property insurance of \$2.7 billion to cover an incident at Cook Plant including coverage for decontamination and stabilization, as well as premature decommissioning caused by an extraordinary incident. Insurance coverage for a nonnuclear property incident at Cook Plant is \$1 billion. Additional insurance provides coverage for a weekly indemnity payment resulting from an insured accidental outage. I&M utilizes industry mutual insurers for the placement of this insurance coverage. Coverage from these industry mutual insurance programs require a contingent financial obligation of up to \$47 million for I&M, which is assessable if the insurer's financial resources would be inadequate to pay for industry losses.

The Price-Anderson Act, extended through December 31, 2025, establishes insurance protection for public nuclear liability arising from a nuclear incident of \$13.9 billion and applies to any incident at a licensed reactor in the U.S. Commercially available insurance, which must be carried for each licensed reactor, provides \$450 million of coverage. In the event of a nuclear incident at any nuclear plant in the U.S., the remainder of the liability would be provided by a deferred premium assessment of \$275 million per nuclear incident on Cook Plant's reactors payable in annual installments of \$41 million. The number of incidents for which payments could be required is not limited.

In the event of an incident of a catastrophic nature, I&M is covered for public nuclear liability for the first \$450 million through commercially available insurance. The next level of liability coverage of up to \$13.5 billion would be covered by claim premium assessments made under the Price-Anderson Act. In the event nuclear losses or liabilities are underinsured or exceed accumulated funds, I&M would seek recovery of those amounts from customers through a rate increase. If recovery from customers is not possible, it could reduce future net income and cash flows and impact financial condition.

## **OPERATIONAL CONTINGENCIES**

### ***Insurance and Potential Losses***

The Registrants maintain insurance coverage normal and customary for electric utilities, subject to various deductibles. The Registrants also maintain property and casualty insurance that may cover certain physical damage or third-party injuries caused by cyber security incidents. Insurance coverage includes all risks of physical loss or damage to nonnuclear assets, subject to insurance policy conditions and exclusions. Covered property generally includes power plants, substations, facilities and inventories. Excluded property generally includes transmission and distribution lines, poles and towers. The insurance programs also generally provide coverage against loss arising from certain claims made by third-parties and are in excess of retentions absorbed by the Registrants. Coverage is generally provided by a combination of the protected cell of EIS and/or various industry mutual and/or commercial insurance carriers. See “Nuclear Contingencies” section above for additional information.

Some potential losses or liabilities may not be insurable or the amount of insurance carried may not be sufficient to meet potential losses and liabilities, including, but not limited to, liabilities relating to a cyber security incident or damage to the Cook Plant and costs of replacement power in the event of an incident at the Cook Plant. Future losses or liabilities, if they occur, which are not completely insured, unless recovered from customers, could reduce future net income and cash flows and impact financial condition.

### ***Rockport Plant Litigation (Applies to AEP and I&M)***

In 2013, the Wilmington Trust Company filed a complaint in the U.S. District Court for the Southern District of New York against AEGCo and I&M alleging that it would be unlawfully burdened by the terms of the modified NSR consent decree after the Rockport Plant, Unit 2 lease expiration in December 2022. The terms of the consent decree allow the installation of environmental emission control equipment, repowering, refueling or retirement of the unit. The plaintiffs seek a judgment declaring that the defendants breached the lease, must satisfy obligations related to installation of emission control equipment and indemnify the plaintiffs. The New York court granted a motion to transfer this case to the U.S. District Court for the Southern District of Ohio.

AEGCo and I&M sought and were granted dismissal by the U.S. District Court for the Southern District of Ohio of certain of the plaintiffs’ claims, including claims for compensatory damages, breach of contract, breach of the implied covenant of good faith and fair dealing and indemnification of costs. Plaintiffs voluntarily dismissed the surviving claims that AEGCo and I&M failed to exercise prudent utility practices with prejudice, and the court issued a final judgment. The plaintiffs subsequently filed an appeal in the U.S. Court of Appeals for the Sixth Circuit.

In 2017, the U.S. Court of Appeals for the Sixth Circuit issued an opinion and judgment affirming the district court’s dismissal of the owners’ breach of good faith and fair dealing claim as duplicative of the breach of contract claims, reversing the district court’s dismissal of the breach of contract claims and remanding the case for further proceedings.

Thereafter, AEP filed a motion with the U.S. District Court for the Southern District of Ohio in the original NSR litigation, seeking to modify the consent decree. The district court granted the owners’ unopposed motion to stay the lease litigation to afford time for resolution of AEP’s motion to modify the consent decree. The consent decree was modified based on an agreement among the parties in July 2019. As part of the modification to the consent decree, I&M agreed to provide an additional \$7.5 million to citizens’ groups and the states for environmental mitigation projects. As joint owners in the Rockport Plant, the \$7.5 million payment was shared between AEGCo and I&M based on the

joint ownership agreement. The district court entered a stay that expired in February 2020. Settlement negotiations are continuing, and the parties filed a joint proposed case schedule in February 2020. See “Modification of the New Source Review Litigation Consent Decree” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations for additional information.

Management will continue to defend against the claims. Given that the district court dismissed plaintiffs’ claims seeking compensatory relief as premature, and that plaintiffs have yet to present a methodology for determining or any analysis supporting any alleged damages, management cannot determine a range of potential losses that is reasonably possible of occurring.

***Patent Infringement Complaint***

In July 2019, Midwest Energy Emissions Corporation and MES Inc. (collectively, the plaintiffs) filed a patent infringement complaint against various parties, including AEP Texas, AGR, Cardinal Operating Company and SWEPCo (collectively, the AEP Defendants). The complaint alleges that the AEP Defendants infringed two patents owned by the plaintiffs by using specific processes for mercury control at certain coal-fired generating stations. The complaint seeks injunctive relief and damages. Management will continue to defend against the claims. Management is unable to determine a range of potential losses that is reasonably possible of occurring.

***Claims Challenging Transition of American Electric Power System Retirement Plan to Cash Balance Formula***

The American Electric Power System Retirement Plan (the Plan) has received a letter written on behalf of four participants (the Claimants) making a claim for additional plan benefits and purporting to advance such claims on behalf of a class. When the Plan’s benefit formula was changed in the year 2000, AEP provided a special provision for employees hired before January 1, 2001, allowing them to continue benefit accruals under the then benefit formula for a full 10 years alongside of the new cash balance benefit formula then being implemented. Employees who were hired on or after January 1, 2001 accrued benefits only under the new cash balance benefit formula. The Claimants have asserted claims that (a) the Plan violates the requirements under the Employee Retirement Income Security Act (ERISA) intended to preclude back-loading the accrual of benefits to the end of a participant’s career; (b) the Plan violates the age discrimination prohibitions of ERISA and the Age Discrimination in Employment Act (ADEA); and (c) the company failed to provide required notice regarding the changes to the Plan. AEP has responded to the Claimants providing a reasoned explanation for why each of their claims have been denied, and offering an opportunity to appeal those determinations. Management will continue to defend against the claims. Management is unable to determine a range of potential losses that are reasonably possible of occurring.

## 7. ACQUISITIONS, DISPOSITIONS AND IMPAIRMENTS

The disclosures in this note apply to AEP unless indicated otherwise.

### ACQUISITIONS

#### 2019

##### *Sempra Renewables LLC (Generation & Marketing Segment)*

In April 2019, AEP acquired Sempra Renewables LLC and its ownership interests in 724 MWs of wind generation and battery assets valued at approximately \$1.1 billion. This acquisition is part of AEP's strategy to grow its renewable generation portfolio and to diversify generation resources. AEP paid \$580 million in cash and acquired a 50% ownership interest in five non-consolidated joint ventures with net assets valued at \$404 million as of the acquisition date (which includes \$364 million of existing debt obligations). Additionally, the transaction included the acquisition of two tax equity partnerships and the associated recognition of noncontrolling tax equity interest of \$135 million. The purchase price was allocated as follows:

#### Purchase Price Allocation of Sempra Renewables LLC at Acquisition Date - April 22nd, 2019

| Assets:                       |                 | Liabilities and Equity:                        |                 | Net Purchase Price |
|-------------------------------|-----------------|--|-----------------|--------------------|
| (in millions)                 |                 |  |                 |                    |
| Current Assets                | \$ 8 8          | Current Liabilities                            | \$ 12 9         |                    |
| Property, Plant and Equipment | 238.1           | Asset Retirement Obligations                   | 5 7             |                    |
| Investment in Joint Ventures  | 404 0           | <b>Total Liabilities</b>                       | <b>18 6</b>     |                    |
| Other Noncurrent Assets       | 82.9            | Noncontrolling Interest                        | 134 8           |                    |
| <b>Total Assets</b>           | <b>\$ 733.8</b> | <b>Liabilities and Noncontrolling Interest</b> | <b>\$ 153 4</b> | <b>\$ 580 4</b>    |

Management allocated the purchase price based upon the relative fair value of the assets acquired and noncontrolling interests assumed. The fair value of the primary assets acquired and the noncontrolling interests assumed was determined using a discounted cash flow method under the income approach. The key input assumptions utilized in the determination of the fair value of these assets were the pricing and terms of the existing PPAs, forecasted market power prices, expected wind farm net capacity and discount rates reflecting risk inherent in the future cash flows and future power prices. Estimating forecasted market power prices involved determining the cost of constructing and operating a new wind plant over an assumed life in the same geographic region as of the acquisition date using third-party market participant assumptions. The expected wind farm net capacity was developed by evaluating each wind farm's historical and expected generation against historical generation of comparable wind farms in the same locations. Discount rates were evaluated by considering the cost of capital of comparable businesses. Additional key input assumptions for the fair value of the noncontrolling interests include the terms of the limited liability company agreements that dictate the sharing of the tax attributes and cash flows associated with the tax equity partnerships. Under the accounting rules for acquisitions, AEP has one year to finalize the purchase price allocation, including working capital adjustments and other closing adjustments.

Upon closing of the purchase, Sempra Renewables LLC was legally renamed AEP Wind Holdings LLC. AEP Wind Holdings LLC develops, owns and operates, or holds interests in, wind generation facilities in the United States. The operating wind generation portfolio includes seven wind farms. Five wind farms are jointly-owned with BP Wind Energy, and two wind farms are consolidated by AEP and are tax equity partnerships with nonaffiliated noncontrolling interests. All seven wind farms have long-term PPAs for 100% of their energy production. One of the joint venture wind farms has PPAs with I&M and OPCo for a portion of its energy production which totaled \$9 million and \$17 million, respectively, for the year ended December 31, 2019. Another joint venture wind farm has a PPA with SWEPCo for a portion of its energy production which totaled \$10 million of purchased electricity for the year ended December 31, 2019. The PPAs with I&M, OPCo and SWEPCo were executed prior to the acquisition of the wind farms and will be accounted for in accordance with the accounting guidance for "Related Parties."

Parent has issued guarantees over the performance of the joint ventures. If a joint venture were to default on payments or performance, Parent would be required to make payments on behalf of the joint venture. As of December 31, 2019, the maximum potential amount of future payments associated with these guarantees was \$175 million, with the last guarantee expiring in December 2037. The liability recorded associated with these guarantees was \$34 million as of December 31, 2019.

The acquired business contributed revenues and net income to AEP that were not material for the period April 22, 2019 to December 31, 2019. The pro-forma revenue and net income related to the acquisition of Semptra Renewables LLC were not material for the year ended December 31, 2019.

See Note 17 - Variable Interest Entities and Equity Method Investments for additional information related to the purchased wind farms.

***Santa Rita East (Generation & Marketing Segment)***

In July 2019, AEP acquired a 75% interest, or 227 MWs, in Santa Rita East for approximately \$356 million. In accordance with the accounting guidance for "Business Combinations," management determined that the acquisition of Santa Rita East represents an asset acquisition. Additionally, and in accordance with the accounting guidance for "Consolidation," management concluded that Santa Rita East is a VIE. As a result, to account for the initial consolidation of Santa Rita East, management applied the acquisition method by allocating the purchase price based on the relative fair value of the assets acquired and noncontrolling interest assumed. The fair value of the primary assets acquired and the noncontrolling interest assumed was determined using the market approach. The key input assumptions were the transaction price paid for AEP's interest in Santa Rita East and recent third-party market transactions for similar wind farms. See "Santa Rita East" section of Note 17 for additional information.

**DISPOSITIONS**

**2017**

***Zimmer Plant (Generation & Marketing Segment)***

In February 2017, AEP signed an agreement to sell its 25.4% ownership share of Zimmer Plant to a nonaffiliated party. The transaction closed in the second quarter of 2017 and did not have a material impact on net income, cash flows or financial condition. The Income before Income Tax Expense and Equity Earnings of Zimmer Plant was immaterial for the years ended December 31, 2017 and 2016.

***Gavin, Waterford, Darby and Lawrenceburg Plants (Generation & Marketing Segment)***

In September 2016, AEP signed a Purchase and Sale Agreement to sell AGR's Gavin, Waterford and Darby Plants as well as AEGCo's Lawrenceburg Plant totaling 5,329 MWs of competitive generation assets to a nonaffiliated party. The sale closed in January 2017 for \$2.2 billion, which was recorded in Investing Activities on the statements of cash flows. The net proceeds from the transaction were \$1.2 billion in cash after taxes, repayment of debt associated with these assets including a make whole payment related to the debt, payment of a coal contract associated with one of the plants and transaction fees. The sale resulted in a pretax gain of \$226 million that was recorded in Gain on Sale of Merchant Generation Assets on AEP's statements of income for the year ended December 31, 2017.

## IMPAIRMENTS

### 2019

#### ***2019 Texas Base Rate Case (Transmission and Distribution Segment) (Applies to AEP and AEP Texas)***

In December 2019, AEP Texas recorded a pretax impairment of \$33 million in Asset Impairments and Other Related Charges on the statements of income due to regulatory disallowances in the 2019 Texas Base Rate Case. See “2019 Texas Base Rate Case” section of Note 4 for additional information.

#### ***Virginia Jurisdictional Book Value of Retired Coal-Fired Plants (Vertically Integrated Utilities Segment) (Applies to AEP and APCo)***

In December 2019, based on management’s interpretation of Virginia law and more certainty regarding APCo’s triennial revenues, expenses and resulting earnings upon reaching the end of the three-year review period, APCo recorded a pretax expense of \$93 million related to its previously retired coal-fired generation. This expense is recorded in Asset Impairments and Other Related Charges on the statements of income. See “Virginia Legislation Affecting Earnings Reviews” section of Note 4 for additional information.

#### ***Merchant Generating Assets (Generation & Marketing Segment)***

Due to a significant increase in the asset retirement costs recorded in December 2019 for the Ash Pond Complex at Conesville Plant, AEP performed an impairment analysis on Conesville Plant in accordance with accounting guidance for impairments of long-lived assets. AEP performed step one and step two of the impairment analysis using a cash flow model for the estimated useful life of Conesville Plant based upon energy and capacity price curves, which were developed internally with both observable Level 2 third-party quotations and unobservable Level 3 inputs, as well as management’s forecasts of operating expenses. The step two analysis resulted in a fair value determination for Conesville Plant of \$0 and AEP recorded a \$31 million pretax impairment, equal to the net book value of the plant, in Asset Impairments and Other Related Charges on AEP’s statements of income in the fourth quarter of 2019.

### 2018

#### ***Other Assets (Corporate and Other) (Vertically Integrated Utilities Segment) (Applies to AEP and APCo)***

In the first quarter of 2018, AEP was notified by an equity investee that it had ceased operations. AEP recorded a pretax impairment of \$21 million in Asset Impairments and Other Related Charges on the statements of income related to the equity investment and related assets. The impairment also had an immaterial impact to APCo.

#### ***Merchant Generating Assets (Generation & Marketing Segment)***

A project to reconstruct a defective dam structure at Racine began in the first quarter of 2017 and reconstruction activities continued throughout 2018. An initial impairment recorded related to Racine is discussed in the “2017” section below.

As of September 30, 2018, the Racine reconstruction project had accumulated new capital expenditures of \$35 million. Due to a significant increase in estimated costs to complete the reconstruction project, in the third quarter of 2018, an impairment analysis was performed. AEP performed step one of the impairment analysis using undiscounted cash flows for the estimated useful life of Racine based upon energy and capacity price curves, which were developed internally with observable Level 2 third-party quotations and unobservable Level 3 inputs, as well as management’s forecasts of operating expenses and capital expenditures. AEP performed step two of the impairment analysis on Racine using a ten-year discounted cash flow model based upon similar forecasted information used in the step one test. The step two analysis resulted in a determination that the fair value of Racine in its condition as of September 30, 2018 was \$0. As a result, AEP recorded a pretax impairment of \$35 million in Other Operation on the statements of income in the third quarter of 2018. In October 2018, AEP received authorization from the FERC to restart generation at Racine and generation resumed in November 2018.

Reconstruction activities at Racine are currently estimated to be completed in the first half of 2020. AEP expects to incur additional capital expenditures to complete the reconstruction project, at which point the fair value of Racine, as fully operational, is expected to approximate the book value once complete. Future revisions in cost estimates or delays in completion could result in additional losses which could reduce future net income and cash flows and impact financial condition.

**2017**

***Merchant Generating Assets (Generation & Marketing Segment)***

In 2017, AEP recorded an additional pretax impairment of \$4 million in Asset Impairments and Other Related Charges on AEP's statements of income related to Cardinal, Unit 1, a 43.5% interest in Conesville, Unit 4, Conesville, Units 5 and 6, a 26% interest in Stuart, Units 1-4, a 25.4% interest in Zimmer, Unit 1, and a 54.7% interest in Oklaunion (collectively the "Merchant Coal-Fired Generation Assets"). In addition, AEP recorded a \$7 million pretax impairment as Asset Impairments and Other Related Charges on AEP's statements of income related to the sale of Zimmer Plant. The sale is further discussed in the "Disposition" section of this note.

Due to a significant increase in estimated costs identified in December 2017 to repair a defective dam structure at Racine, AEP performed an impairment analysis on Racine in accordance with accounting guidance for impairments of long-lived assets. AEP performed step one of the impairment analysis using undiscounted cash flows for the estimated useful life of Racine based upon energy and capacity price curves, which were developed internally with both observable Level 2 third-party quotations and unobservable Level 3 inputs, as well as management's forecasts of operating expenses and capital expenditures. AEP performed step two of the impairment analysis on Racine using a ten-year discounted cash flow model based upon similar forecasted information used in the step one test. The step two analysis resulted in a fair value determination for Racine of \$0 and AEP recorded a pretax impairment of \$43 million in Assets Impairments and Other Related Charges on the statements of income in the fourth quarter of 2017.

***Welsh Plant, Unit 2 and Turk Plant (Vertically Integrated Utilities Segment) (Applies to AEP and SWEPCo)***

In December 2017, SWEPCo recorded a pretax impairment of \$19 million in Asset Impairments and Other Related Charges on the statements of income related to the Texas jurisdictional share of Welsh Plant, Unit 2 and other disallowed plant investments. Additionally in December 2017, SWEPCo recorded a pretax impairment of \$15 million in Asset Impairments and Other Related Charges on the statements of income related to the Louisiana jurisdictional share of the Turk Plant. See the "2016 Texas Base Rate Case" section of Note 4.

## 8. BENEFIT PLANS

The disclosures in this note apply to all Registrants except AEPTCo unless indicated otherwise.

For a discussion of investment strategy, investment limitations, target asset allocations and the classification of investments within the fair value hierarchy, see “Fair Value Measurements of Assets and Liabilities” and “Investments Held in Trust for Future Liabilities” sections of Note 1.

AEP sponsors a qualified pension plan and two unfunded nonqualified pension plans. Substantially all AEP employees are covered by the qualified plan or both the qualified and a nonqualified pension plan. AEP also sponsors OPEB plans to provide health and life insurance benefits for retired employees.

Due to the Registrant Subsidiaries’ participation in AEP’s benefit plans, the assumptions used by the actuary, with the exception of the rate of compensation increase, and the accounting for the plans by each subsidiary are the same. This section details the assumptions that apply to all Registrants and the rate of compensation increase for each Registrant.

The Registrants recognize the funded status associated with defined benefit pension and OPEB plans on the balance sheets. Disclosures about the plans are required by the “Compensation – Retirement Benefits” accounting guidance. The Registrants recognize an asset for a plan’s overfunded status or a liability for a plan’s underfunded status, and recognize, as a component of other comprehensive income, the changes in the funded status of the plan that arise during the year that are not recognized as a component of net periodic benefit cost. The Registrants record a regulatory asset instead of other comprehensive income for qualifying benefit costs of regulated operations that for ratemaking purposes are deferred for future recovery. The cumulative funded status adjustment is equal to the remaining unrecognized deferrals for unamortized actuarial losses or gains, prior service costs and transition obligations, such that remaining deferred costs result in an AOCI equity reduction or regulatory asset and deferred gains result in an AOCI equity addition or regulatory liability.

### *Actuarial Assumptions for Benefit Obligations*

The weighted-average assumptions used in the measurement of the Registrants’ benefit obligations are shown in the following tables:

| Assumption              | Pension Plans |       | OPEB  |       |
|-------------------------|---------------|-------|-------|-------|
|                         | December 31,  |       |       |       |
|                         | 2019          | 2018  | 2019  | 2018  |
| Discount Rate           | 3.25%         | 4.30% | 3.30% | 4.30% |
| Interest Crediting Rate | 4.00%         | 4.00% | NA    | NA    |

NA Not applicable.

| Assumption – Rate of Compensation Increase (a) | Pension Plans |       |
|--|---------------|-------|
|  | December 31,  |       |
|  | 2019          | 2018  |
| AEP  | 4.95%         | 4.85% |
| AEP Texas                                      | 5.00%         | 4.95% |
| APCo   | 4.80%         | 4.75% |
| I&M  | 4.95%         | 4.90% |
| OPCo   | 5.15%         | 5.00% |
| PSO  | 5.05%         | 4.90% |
| SWEPCo   | 4.90%         | 4.85% |

- (a) Rates are for base pay only. In addition, an amount is added to reflect target incentive compensation for exempt employees and overtime and incentive pay for nonexempt employees.



A duration-based method is used to determine the discount rate for the plans. A hypothetical portfolio of high quality corporate bonds is constructed with cash flows matching the benefit plan liability. The composite yield on the hypothetical bond portfolio is used as the discount rate for the plan. The discount rate is the same for each Registrant.

For 2019, the rate of compensation increase assumed varies with the age of the employee, ranging from 3% per year to 11.5% per year, with the average increase shown in the table above. The compensation increase rates reflect variations in each Registrants' population participating in the pension plan.

**Actuarial Assumptions for Net Periodic Benefit Costs**

The weighted-average assumptions used in the measurement of each Registrants' benefit costs are shown in the following tables:

| Assumption                     | Pension Plans           |       |       | OPEB  |       |       |
|--------------------------------|-------------------------|-------|-------|-------|-------|-------|
|                                | Year Ended December 31, |       |       |       |       |       |
|                                | 2019                    | 2018  | 2017  | 2019  | 2018  | 2017  |
| Discount Rate                  | 4.30%                   | 3.65% | 4.05% | 4.30% | 3.60% | 4.10% |
| Interest Crediting Rate        | 4.00%                   | 4.00% | 4.00% | NA    | NA    | NA    |
| Expected Return on Plan Assets | 6.25%                   | 6.00% | 6.00% | 6.25% | 6.00% | 6.75% |

NA Not applicable.

| Assumption – Rate of Compensation Increase (a) | Pension Plans           |       |       |
|--|-------------------------|-------|-------|
|  | Year Ended December 31, |       |       |
|  | 2019                    | 2018  | 2017  |
| AEP  | 4.95%                   | 4.85% | 4.80% |
| AEP Texas                                      | 5.00%                   | 4.95% | 4.90% |
| APCo   | 4.75%                   | 4.75% | 4.60% |
| I&M  | 4.95%                   | 4.90% | 4.85% |
| OPCo   | 5.20%                   | 5.00% | 4.95% |
| PSO  | 5.05%                   | 4.90% | 4.90% |
| SWEPco   | 4.90%                   | 4.85% | 4.80% |

- (a) Rates are for base pay only. In addition, an amount is added to reflect target incentive compensation for exempt employees and overtime and incentive pay for nonexempt employees.

The expected return on plan assets was determined by evaluating historical returns, the current investment climate (yield on fixed income securities and other recent investment market indicators), rate of inflation, third-party forecasts and current prospects for economic growth. The expected return on plan assets is the same for each Registrant.

The health care trend rate assumptions used for OPEB plans measurement purposes are shown below:

| Health Care Trend Rates | December 31, |       |
|-------------------------|--------------|-------|
|                         | 2019         | 2018  |
| Initial                 | 6.00%        | 6.25% |
| Ultimate                | 4.50%        | 5.00% |
| Year Ultimate Reached   | 2026         | 2024  |

**Significant Concentrations of Risk within Plan Assets**

In addition to establishing the target asset allocation of plan assets, the investment policy also places restrictions on securities to limit significant concentrations within plan assets. The investment policy establishes guidelines that govern maximum market exposure, security restrictions, prohibited asset classes, prohibited types of transactions, minimum credit quality, average portfolio credit quality, portfolio duration and concentration limits. The guidelines were established to mitigate the risk of loss due to significant concentrations in any investment. Management monitors the plans to control security diversification and ensure compliance with the investment policy. As of December 31, 2019, the assets were invested in compliance with all investment limits. See "Investments Held in Trust for Future Liabilities" section of Note 1 for limit details.

**Benefit Plan Obligations, Plan Assets, Funded Status and Amounts Recognized on the Balance Sheets**

For the year ended December 31, 2019, the pension plans had an actuarial loss due to a decrease in the discount rate, partially offset by updates to the mortality table. For the year ended December 31, 2019, the OPEB plans had an actuarial loss due to a decrease in the discount rate and an update to the persistency assumption, partially offset by an update to the projected per capita cost assumption as well as savings resulting from legislation signed in December 2019 which eliminated two Affordable Care Act taxes. For the year ended December 31, 2018, the pension and OPEB plans had an actuarial gain due to an increase in the discount rate as well as updated estimates for future medical expenses in the OPEB plans. The following tables provide a reconciliation of the changes in the plans' benefit obligations, fair value of plan assets, funded status and the presentation on the balance sheets. The benefit obligation for the defined benefit pension and OPEB plans are the projected benefit obligation and the accumulated benefit obligation, respectively.

|   | Pension Plans     |                   | OPEB              |                   |
|---|-------------------|-------------------|-------------------|-------------------|
|   | 2019              | 2018              | 2019              | 2018              |
|   | (in millions)     |                   |                   |                   |
| <b>Change in Benefit Obligation</b>                   |                   |                   |                   |                   |
| Benefit Obligation as of January 1,                   | \$ 4,810.3        | \$ 5,215.8        | \$ 1,194.5        | \$ 1,332.0        |
| Service Cost  | 95.5              | 97.6              | 9.5               | 11.6              |
| Interest Cost   | 204.4             | 187.8             | 50.5              | 47.4              |
| Actuarial (Gain) Loss                                 | 493.6             | (306.3)           | 58.8              | (100.1)           |
| Plan Amendments                                       | 0.2               | —                 | (11.0)            | —                 |
| Benefit Payments                                      | (367.2)           | (384.6)           | (113.0)           | (133.6)           |
| Participant Contributions                             | —                 | —                 | 35.5              | 36.5              |
| Medicare Subsidy                                      | —                 | —                 | 0.6               | 0.7               |
| <b>Benefit Obligation as of December 31,</b>          | <b>\$ 5,236.8</b> | <b>\$ 4,810.3</b> | <b>\$ 1,225.4</b> | <b>\$ 1,194.5</b> |
| <b>Change in Fair Value of Plan Assets</b>            |                   |                   |                   |                   |
| Fair Value of Plan Assets as of January 1,            | \$ 4,695.9        | \$ 5,174.1        | \$ 1,534.2        | \$ 1,732.5        |
| Actual Gain (Loss) on Plan Assets                     | 681.1             | (104.9)           | 321.0             | (118.3)           |
| Company Contributions (a)                             | 5.6               | 11.3              | 4.1               | 17.1              |
| Participant Contributions                             | —                 | —                 | 35.5              | 36.5              |
| Benefit Payments                                      | (367.2)           | (384.6)           | (113.0)           | (133.6)           |
| <b>Fair Value of Plan Assets as of December 31,</b>   | <b>\$ 5,015.4</b> | <b>\$ 4,695.9</b> | <b>\$ 1,781.8</b> | <b>\$ 1,534.2</b> |
| <b>Funded (Underfunded) Status as of December 31,</b> | <b>\$ (221.4)</b> | <b>\$ (114.4)</b> | <b>\$ 556.4</b>   | <b>\$ 339.7</b>   |

- (a) AEP did not make contributions to the qualified pension plan in 2019 or 2018. Contributions to the nonqualified pension plans were \$6 million and \$11 million for the years ended December 31, 2019 and 2018, respectively.

**AEP**

Deferred Charges and Other Noncurrent Assets – Prepaid Benefit Costs  
Other Current Liabilities – Accrued Short-term Benefit Liability  
Employee Benefits and Pension Obligations – Accrued Long-term Benefit Liability  
**Funded (Underfunded) Status**

| Pension Plans     |                   | OPEB            |                 |
|-------------------|-------------------|-----------------|-----------------|
| December 31,      |                   |                 |                 |
| 2019              | 2018              | 2019            | 2018            |
| (in millions)     |                   |                 |                 |
| \$ —              | \$ —              | \$ 590.8        | \$ 392.2        |
| (6.1)             | (5.7)             | (2.6)           | (2.8)           |
| (215.3)           | (108.7)           | (31.8)          | (49.7)          |
| <u>\$ (221.4)</u> | <u>\$ (114.4)</u> | <u>\$ 556.4</u> | <u>\$ 339.7</u> |

**AEP Texas**

**Change in Benefit Obligation**

| Pension Plans   |                 | OPEB           |                |
|-----------------|-----------------|----------------|----------------|
| 2019            | 2018            | 2019           | 2018           |
| (in millions)   |                 |                |                |
| \$ 409.3        | \$ 441.3        | \$ 95.9        | \$ 107.1       |
| 8.6             | 9.2             | 0.8            | 0.9            |
| 17.5            | 16.0            | 4.0            | 3.8            |
| 40.1            | (20.9)          | 3.9            | (8.3)          |
| —               | —               | (0.9)          | —              |
| (34.3)          | (36.3)          | (8.8)          | (10.7)         |
| —               | —               | 2.9            | 3.1            |
| <u>\$ 441.2</u> | <u>\$ 409.3</u> | <u>\$ 97.8</u> | <u>\$ 95.9</u> |

**Change in Fair Value of Plan Assets**

|   |                 |                 |                 |                 |
|---|-----------------|-----------------|-----------------|-----------------|
| Fair Value of Plan Assets as of January 1,            | \$ 410.7        | \$ 455.9        | \$ 129.9        | \$ 147.3        |
| Actual Gain (Loss) on Plan Assets                     | 58.3            | (9.3)           | 24.0            | (14.6)          |
| Company Contributions                                 | 0.4             | 0.4             | 0.1             | 4.8             |
| Participant Contributions                             | —               | —               | 2.9             | 3.1             |
| Benefit Payments                                      | (34.3)          | (36.3)          | (8.8)           | (10.7)          |
| <u>Fair Value of Plan Assets as of December 31,</u>   | <u>\$ 435.1</u> | <u>\$ 410.7</u> | <u>\$ 148.1</u> | <u>\$ 129.9</u> |
| <b>Funded (Underfunded) Status as of December 31,</b> | <u>\$ (6.1)</u> | <u>\$ 1.4</u>   | <u>\$ 50.3</u>  | <u>\$ 34.0</u>  |

**AEP Texas**

Deferred Charges and Other Noncurrent Assets – Prepaid Benefit Costs  
Other Current Liabilities – Accrued Short-term Benefit Liability  
Deferred Credits and Other Noncurrent Liabilities – Accrued Long-term Benefit Liability  
**Funded (Underfunded) Status**

| Pension Plans |       | OPEB |      |
|---------------|-------|------|------|
| December 31,  |       |      |      |
| 2019          | 2018  | 2019 | 2018 |
| (in millions) |       |      |      |
| \$            | —     | \$   | 50.3 |
|               | (0.4) |      | —    |
|               | (5.7) |      | —    |
| \$            | (6.1) | \$   | 50.3 |
|               | 1.4   |      | 34.0 |

**APCo**

|   | <b>Pension Plans</b> |                 | <b>OPEB</b>     |                 |
|---|----------------------|-----------------|-----------------|-----------------|
|   | <b>2019</b>          | <b>2018</b>     | <b>2019</b>     | <b>2018</b>     |
| <b>Change in Benefit Obligation</b>                   | <b>(in millions)</b> |                 |                 |                 |
| Benefit Obligation as of January 1,                   | \$ 603.1             | \$ 665.0        | \$ 205.5        | \$ 236.5        |
| Service Cost  | 9.4                  | 9.3             | 1.0             | 1.1             |
| Interest Cost   | 25.2                 | 23.5            | 8.7             | 8.2             |
| Actuarial (Gain) Loss                                 | 52.9                 | (49.2)          | 4.7             | (21.9)          |
| Plan Amendments                                       | —                    | —               | (1.7)           | —               |
| Benefit Payments                                      | (43.4)               | (45.5)          | (20.8)          | (24.7)          |
| Participant Contributions                             | —                    | —               | 5.9             | 6.1             |
| Medicare Subsidy                                      | —                    | —               | 0.2             | 0.2             |
| <b>Benefit Obligation as of December 31,</b>          | <b>\$ 647.2</b>      | <b>\$ 603.1</b> | <b>\$ 203.5</b> | <b>\$ 205.5</b> |
| <b>Change in Fair Value of Plan Assets</b>            |                      |                 |                 |                 |
| Fair Value of Plan Assets as of January 1,            | \$ 593.3             | \$ 651.7        | \$ 238.4        | \$ 273.4        |
| Actual Gain (Loss) on Plan Assets                     | 87.1                 | (12.9)          | 45.3            | (18.7)          |
| Company Contributions                                 | —                    | —               | 2.2             | 2.3             |
| Participant Contributions                             | —                    | —               | 5.9             | 6.1             |
| Benefit Payments                                      | (43.4)               | (45.5)          | (20.8)          | (24.7)          |
| <b>Fair Value of Plan Assets as of December 31,</b>   | <b>\$ 637.0</b>      | <b>\$ 593.3</b> | <b>\$ 271.0</b> | <b>\$ 238.4</b> |
| <b>Funded (Underfunded) Status as of December 31,</b> | <b>\$ (10.2)</b>     | <b>\$ (9.8)</b> | <b>\$ 67.5</b>  | <b>\$ 32.9</b>  |

|   | Pension Plans |          | OPEB    |         |
|---|---------------|----------|---------|---------|
|   | December 31,  |          |         |         |
| APCo  | 2019          | 2018     | 2019    | 2018    |
|   | (in millions) |          |         |         |
| Deferred Charges and Other Noncurrent Assets – Prepaid Benefit Costs            | \$ —          | \$ —     | \$ 92.0 | \$ 62.3 |
| Other Current Liabilities – Accrued Short-term Benefit Liability                | —             | —        | (2.0)   | (2.1)   |
| Employee Benefits and Pension Obligations – Accrued Long-term Benefit Liability | (10.2)        | (9.8)    | (22.5)  | (27.3)  |
| Funded (Underfunded) Status   | \$ (10.2)     | \$ (9.8) | \$ 67.5 | \$ 32.9 |

**I&M**

|   | Pension Plans   |                 | OPEB            |                 |
|---|-----------------|-----------------|-----------------|-----------------|
|   | 2019            | 2018            | 2019            | 2018            |
| <b>Change in Benefit Obligation</b>                 | (in millions)   |                 |                 |                 |
| Benefit Obligation as of January 1,                 | \$ 567.0        | \$ 624.3        | \$ 138.3        | \$ 153.5        |
| Service Cost  | 13.4            | 13.6            | 1.4             | 1.6             |
| Interest Cost                                       | 23.8            | 22.1            | 5.8             | 5.4             |
| Actuarial (Gain) Loss                               | 49.8            | (53.9)          | 8.1             | (10.6)          |
| Plan Amendments                                     | —               | —               | (1.5)           | —               |
| Benefit Payments                                    | (37.9)          | (39.1)          | (13.6)          | (16.2)          |
| Participant Contributions                           | —               | —               | 4.4             | 4.5             |
| Medicare Subsidy                                    | —               | —               | —               | 0.1             |
| <b>Benefit Obligation as of December 31,</b>        | <b>\$ 616.1</b> | <b>\$ 567.0</b> | <b>\$ 142.9</b> | <b>\$ 138.3</b> |
| <b>Change in Fair Value of Plan Assets</b>          |                 |                 |                 |                 |
| Fair Value of Plan Assets as of January 1,          | \$ 583.8        | \$ 636.7        | \$ 187.3        | \$ 211.1        |
| Actual Gain (Loss) on Plan Assets                   | 84.6            | (13.8)          | 38.2            | (12.1)          |
| Company Contributions                               | —               | —               | —               | —               |
| Participant Contributions                           | —               | —               | 4.4             | 4.5             |
| Benefit Payments                                    | (37.9)          | (39.1)          | (13.6)          | (16.2)          |
| <b>Fair Value of Plan Assets as of December 31,</b> | <b>\$ 630.5</b> | <b>\$ 583.8</b> | <b>\$ 216.3</b> | <b>\$ 187.3</b> |
| <b>Funded Status as of December 31,</b>             | <b>\$ 14.4</b>  | <b>\$ 16.8</b>  | <b>\$ 73.4</b>  | <b>\$ 49.0</b>  |

|   | Pension Plans  |                | OPEB           |                |
|---|----------------|----------------|----------------|----------------|
|   | 2019           | 2018           | 2019           | 2018           |
| <b>I&amp;M</b>  | (in millions)  |                |                |                |
| Deferred Charges and Other Noncurrent Assets – Prepaid Benefit Costs                    | \$ 15.8        | \$ 18.0        | \$ 73.4        | \$ 49.0        |
| Deferred Credits and Other Noncurrent Liabilities – Accrued Long-term Benefit Liability | (1.4)          | (1.2)          | —              | —              |
| <b>Funded Status</b>  | <b>\$ 14.4</b> | <b>\$ 16.8</b> | <b>\$ 73.4</b> | <b>\$ 49.0</b> |

**OPCo**

|   | Pension Plans   |                 | OPEB            |                 |
|---|-----------------|-----------------|-----------------|-----------------|
|   | 2019            | 2018            | 2019            | 2018            |
| <b>Change in Benefit Obligation</b>                 | (in millions)   |                 |                 |                 |
| Benefit Obligation as of January 1,                 | \$ 453.9        | \$ 501.1        | \$ 129.5        | \$ 144.3        |
| Service Cost  | 7.9             | 7.7             | 0.8             | 0.9             |
| Interest Cost                                       | 19.1            | 17.7            | 5.5             | 5.1             |
| Actuarial (Gain) Loss                               | 40.5            | (36.6)          | 4.9             | (9.4)           |
| Plan Amendments                                     | —               | —               | (1.2)           | —               |
| Benefit Payments                                    | (33.6)          | (36.0)          | (13.5)          | (15.8)          |
| Participant Contributions                           | —               | —               | 4.1             | 4.3             |
| Medicare Subsidy                                    | —               | —               | 0.1             | 0.1             |
| <b>Benefit Obligation as of December 31,</b>        | <b>\$ 487.8</b> | <b>\$ 453.9</b> | <b>\$ 130.2</b> | <b>\$ 129.5</b> |
| <b>Change in Fair Value of Plan Assets</b>          |                 |                 |                 |                 |
| Fair Value of Plan Assets as of January 1,          | \$ 466.1        | \$ 509.1        | \$ 175.4        | \$ 198.5        |
| Actual Gain (Loss) on Plan Assets                   | 66.6            | (7.0)           | 31.1            | (11.6)          |
| Participant Contributions                           | —               | —               | 4.1             | 4.3             |
| Benefit Payments                                    | (33.6)          | (36.0)          | (13.5)          | (15.8)          |
| <b>Fair Value of Plan Assets as of December 31,</b> | <b>\$ 499.1</b> | <b>\$ 466.1</b> | <b>\$ 197.1</b> | <b>\$ 175.4</b> |
| <b>Funded Status as of December 31,</b>             | <b>\$ 11.3</b>  | <b>\$ 12.2</b>  | <b>\$ 66.9</b>  | <b>\$ 45.9</b>  |

|   | Pension Plans  |                | OPEB           |                |
|---|----------------|----------------|----------------|----------------|
|   | 2019           | 2018           | 2019           | 2018           |
| <b>OPCo</b>   | December 31,   |                |                |                |
|   | (in millions)  |                |                |                |
| Deferred Charges and Other Noncurrent Assets – Prepaid Benefit Costs                    | \$ 11.7        | \$ 12.6        | \$ 66.9        | \$ 45.9        |
| Deferred Credits and Other Noncurrent Liabilities – Accrued Long-term Benefit Liability | (0.4)          | (0.4)          | —              | —              |
| <b>Funded Status</b>  | <b>\$ 11.3</b> | <b>\$ 12.2</b> | <b>\$ 66.9</b> | <b>\$ 45.9</b> |

**PSO**

|   | Pension Plans   |                 | OPEB           |                |
|---|-----------------|-----------------|----------------|----------------|
|   | 2019            | 2018            | 2019           | 2018           |
| <b>Change in Benefit Obligation</b>                 | (in millions)   |                 |                |                |
| Benefit Obligation as of January 1,                 | \$ 253.8        | \$ 276.6        | \$ 62.3        | \$ 69.4        |
| Service Cost  | 6.5             | 7.0             | 0.6            | 0.7            |
| Interest Cost                                       | 10.6            | 9.9             | 2.6            | 2.5            |
| Actuarial (Gain) Loss                               | 16.8            | (18.9)          | 3.8            | (5.6)          |
| Plan Amendments                                     | —               | —               | (0.7)          | —              |
| Benefit Payments                                    | (20.2)          | (20.8)          | (5.9)          | (6.7)          |
| Participant Contributions                           | —               | —               | 2.0            | 2.0            |
| <b>Benefit Obligation as of December 31,</b>        | <b>\$ 267.5</b> | <b>\$ 253.8</b> | <b>\$ 64.7</b> | <b>\$ 62.3</b> |
| <b>Change in Fair Value of Plan Assets</b>          |                 |                 |                |                |
| Fair Value of Plan Assets as of January 1,          | \$ 261.2        | \$ 287.8        | \$ 84.3        | \$ 95.5        |
| Actual Gain (Loss) on Plan Assets                   | 34.7            | (5.9)           | 17.6           | (9.2)          |
| Company Contributions                               | 0.5             | 0.1             | —              | 2.7            |
| Participant Contributions                           | —               | —               | 2.0            | 2.0            |
| Benefit Payments                                    | (20.2)          | (20.8)          | (5.9)          | (6.7)          |
| <b>Fair Value of Plan Assets as of December 31,</b> | <b>\$ 276.2</b> | <b>\$ 261.2</b> | <b>\$ 98.0</b> | <b>\$ 84.3</b> |
| <b>Funded Status as of December 31,</b>             | <b>\$ 8.7</b>   | <b>\$ 7.4</b>   | <b>\$ 33.3</b> | <b>\$ 22.0</b> |

**PSO**

|   | Pension Plans |               | OPEB           |                |
|---|---------------|---------------|----------------|----------------|
|   | 2019          | 2018          | 2019           | 2018           |
|   | December 31,  |               |                |                |
|   | (in millions) |               |                |                |
| Employee Benefits and Pension Assets – Prepaid Benefit Costs                            | \$ 10.6       | \$ 9.7        | \$ 33.3        | \$ 22.0        |
| Other Current Liabilities – Accrued Short-term Benefit Liability                        | (0.1)         | (0.2)         | —              | —              |
| Deferred Credits and Other Noncurrent Liabilities – Accrued Long-term Benefit Liability | (1.8)         | (2.1)         | —              | —              |
| <b>Funded Status</b>  | <b>\$ 8.7</b> | <b>\$ 7.4</b> | <b>\$ 33.3</b> | <b>\$ 22.0</b> |

**SWEPCo**

|   | Pension Plans        |                  | OPEB            |                |
|---|----------------------|------------------|-----------------|----------------|
|   | 2019                 | 2018             | 2019            | 2018           |
| <b>Change in Benefit Obligation</b>                   | <b>(in millions)</b> |                  |                 |                |
| Benefit Obligation as of January 1,                   | \$ 291.4             | \$ 314.6         | \$ 72.7         | \$ 80.3        |
| Service Cost  | 8.6                  | 9.3              | 0.8             | 0.9            |
| Interest Cost   | 12.4                 | 11.3             | 3.1             | 2.8            |
| Actuarial (Gain) Loss                                 | 25.5                 | (19.2)           | 6.0             | (5.9)          |
| Plan Amendments                                       | —                    | —                | (0.8)           | —              |
| Benefit Payments                                      | (23.7)               | (24.6)           | (6.6)           | (7.7)          |
| Participant Contributions                             | —                    | —                | 2.2             | 2.3            |
| <b>Benefit Obligation as of December 31,</b>          | <b>\$ 314.2</b>      | <b>\$ 291.4</b>  | <b>\$ 77.4</b>  | <b>\$ 72.7</b> |
| <b>Change in Fair Value of Plan Assets</b>            |                      |                  |                 |                |
| Fair Value of Plan Assets as of January 1,            | \$ 281.0             | \$ 311.7         | \$ 98.5         | \$ 110.4       |
| Actual Gain (Loss) on Plan Assets                     | 39.5                 | (7.3)            | 23.1            | (9.2)          |
| Company Contributions                                 | 0.1                  | 1.2              | —               | 2.7            |
| Participant Contributions                             | —                    | —                | 2.2             | 2.3            |
| Benefit Payments                                      | (23.7)               | (24.6)           | (6.6)           | (7.7)          |
| <b>Fair Value of Plan Assets as of December 31,</b>   | <b>\$ 296.9</b>      | <b>\$ 281.0</b>  | <b>\$ 117.2</b> | <b>\$ 98.5</b> |
| <b>Funded (Underfunded) Status as of December 31,</b> | <b>\$ (17.3)</b>     | <b>\$ (10.4)</b> | <b>\$ 39.8</b>  | <b>\$ 25.8</b> |

|   | Pension Plans        |                  | OPEB           |                |
|---|----------------------|------------------|----------------|----------------|
|   | 2019                 | 2018             | 2019           | 2018           |
| <b>December 31,</b>   | <b>(in millions)</b> |                  |                |                |
| <b><u>SWEPCo</u></b>  |                      |                  |                |                |
| Deferred Charges and Other Noncurrent Assets – Prepaid Benefit Costs            | \$ —                 | \$ —             | \$ 39.8        | \$ 25.8        |
| Other Current Liabilities – Accrued Short-term Benefit Liability                | (0.1)                | (0.2)            | —              | —              |
| Employee Benefits and Pension Obligations – Accrued Long-term Benefit Liability | (17.2)               | (10.2)           | —              | —              |
| <b>Funded (Underfunded) Status</b>  | <b>\$ (17.3)</b>     | <b>\$ (10.4)</b> | <b>\$ 39.8</b> | <b>\$ 25.8</b> |



**Amounts Included in Regulatory Assets, Deferred Income Taxes and AOCI**

The following tables show the components of the plans included in Regulatory Assets, Deferred Income Taxes and AOCI and the items attributable to the change in these components:

| AEP                         | Pension Plans |         |      |         | OPEB |         |    |         |
|-----------------------------|---------------|---------|------|---------|------|---------|----|---------|
|                             | December 31,  |         |      |         |      |         |    |         |
|                             | 2019          | 2018    | 2019 | 2018    |      |         |    |         |
|                             | (in millions) |         |      |         |      |         |    |         |
| Components                  |               |         |      |         |      |         |    |         |
| Net Actuarial Loss          | \$            | 1,406.2 | \$   | 1,355.2 | \$   | 225.8   | \$ | 419.8   |
| Prior Service Cost (Credit) |               | 0.2     |      | —       |      | (285.7) |    | (347.2) |
| Recorded as                 |               |         |      |         |      |         |    |         |
| Regulatory Assets           | \$            | 1,351.8 | \$   | 1,267.9 | \$   | (46.8)  | \$ | 52.5    |
| Deferred Income Taxes       |               | 11.5    |      | 18.4    |      | (2.7)   |    | 4.2     |
| Net of Tax AOCI             |               | 43.1    |      | 68.9    |      | (10.4)  |    | 15.9    |

| Components                                    | Pension Plans  |               | OPEB              |                 |
|---|----------------|---------------|-------------------|-----------------|
|   | 2019           | 2018          | 2019              | 2018            |
|   | (in millions)  |               |                   |                 |
| Actuarial (Gain) Loss During the Year         | \$ 108.6       | \$ 88.8       | \$ (171.9)        | \$ 120.4        |
| Amortization of Actuarial Loss                | (57.6)         | (87.8)        | (22.1)            | (10.5)          |
| Prior Service (Credit) Cost                   | 0.2            | —             | (7.6)             | —               |
| Amortization of Prior Service Credit          | —              | —             | 69.1              | 69.1            |
| <b>Change for the Year Ended December 31,</b> | <b>\$ 51.2</b> | <b>\$ 1.0</b> | <b>\$ (132.5)</b> | <b>\$ 179.0</b> |

| Components            | Pension Plans |          | OPEB     |         |
|-----------------------|---------------|----------|----------|---------|
|                       | 2019          | 2018     | 2019     | 2018    |
|                       | (in millions) |          |          |         |
| Net Actuarial Loss    | \$ 184.7      | \$ 182.0 | \$ 23.5  | \$ 38.0 |
| Prior Service Credit  | —             | —        | (24.2)   | (29.5)  |
| <b>Recorded as</b>    |               |          |          |         |
| Regulatory Assets     | \$ 172.2      | \$ 168.2 | \$ (0.2) | \$ 8.7  |
| Deferred Income Taxes | 2.7           | 2.9      | (0.1)    | —       |
| Net of Tax AOCI       | 9.8           | 10.9     | (0.4)    | (0.2)   |

| Components                                    | Pension Plans |               | OPEB            |                |
|---|---------------|---------------|-----------------|----------------|
|   | 2019          | 2018          | 2019            | 2018           |
|   | (in millions) |               |                 |                |
| Actuarial (Gain) Loss During the Year         | \$ 7.6        | \$ 14.0       | \$ (12.7)       | \$ 14.9        |
| Amortization of Actuarial Loss                | (4.9)         | (7.2)         | (1.8)           | (0.8)          |
| Prior Service Credit                          | —             | —             | (0.6)           | —              |
| Amortization of Prior Service Credit          | —             | —             | 5.9             | 5.9            |
| <b>Change for the Year Ended December 31,</b> | <b>\$ 2.7</b> | <b>\$ 6.8</b> | <b>\$ (9.2)</b> | <b>\$ 20.0</b> |

**APCo**

| <u>APCo</u>           | Pension Plans |          |          | OPEB    |  |
|-----------------------|---------------|----------|----------|---------|--|
|                       | December 31,  |          |          |         |  |
|                       | 2019          | 2018     | 2019     | 2018    |  |
| Components            | (in millions) |          |          |         |  |
| Net Actuarial Loss    | \$ 168.3      | \$ 172.2 | \$ 28.8  | \$ 58.9 |  |
| Prior Service Credit  | —             | —        | (41.6)   | (50.4)  |  |
| Recorded as           |               |          |          |         |  |
| Regulatory Assets     | \$ 166.3      | \$ 169.6 | \$ (5.5) | \$ 2.6  |  |
| Deferred Income Taxes | 0.3           | 0.5      | (1.5)    | 1.2     |  |
| Net of Tax AOCI       | 1.7           | 2.1      | (5.8)    | 4.7     |  |

**APCo**

| Components                             | Pension Plans |           | OPEB      |         |
|--|---------------|-----------|-----------|---------|
|  | 2019          | 2018      | 2019      | 2018    |
|  | (in millions) |           |           |         |
| Actuarial (Gain) Loss During the Year  | \$ 3.1        | \$ 0.3    | \$ (26.4) | \$ 12.8 |
| Amortization of Actuarial Loss         | (7.0)         | (10.6)    | (3.7)     | (1.9)   |
| Prior Service Credit                   | —             | —         | (1.3)     | —       |
| Amortization of Prior Service Credit   | —             | —         | 10.1      | 10.0    |
| Change for the Year Ended December 31, | \$ (3.9)      | \$ (10.3) | \$ (21.3) | \$ 20.9 |

**I&M**

| <b>I&amp;M</b>        | <b>Pension Plans</b> |      |             |      | <b>OPEB</b> |        |             |        |
|-----------------------|----------------------|------|-------------|------|-------------|--------|-------------|--------|
|                       | <b>December 31,</b>  |      |             |      |             |        |             |        |
|                       | <b>2019</b>          |      | <b>2018</b> |      | <b>2019</b> |        | <b>2018</b> |        |
|                       | <b>(in millions)</b> |      |             |      |             |        |             |        |
| <b>Components</b>     |                      |      |             |      |             |        |             |        |
| Net Actuarial Loss    | \$                   | 76.0 | \$          | 80.6 | \$          | 32.7   | \$          | 54.7   |
| Prior Service Credit  |                      | —    |             | —    |             | (39.0) |             | (47.4) |
| <b>Recorded as</b>    |                      |      |             |      |             |        |             |        |
| Regulatory Assets     | \$                   | 73.7 | \$          | 78.4 | \$          | (6.2)  | \$          | 6.5    |
| Deferred Income Taxes |                      | 0.5  |             | 0.5  |             | —      |             | 0.2    |
| Net of Tax AOCI       |                      | 1.8  |             | 1.7  |             | (0.1)  |             | 0.6    |

**I&M**

| Components                             | Pension Plans |           | OPEB      |         |
|--|---------------|-----------|-----------|---------|
|  | 2019          | 2018      | 2019      | 2018    |
|  | (in millions) |           |           |         |
| Actuarial (Gain) Loss During the Year  | \$ 2.0        | \$ (4.5)  | \$ (19.3) | \$ 13.9 |
| Amortization of Actuarial Loss         | (6.6)         | (9.8)     | (2.7)     | (1.2)   |
| Prior Service Credit                   | —             | —         | (1.0)     | —       |
| Amortization of Prior Service Credit   | —             | —         | 9.4       | 9.5     |
| Change for the Year Ended December 31, | \$ (4.6)      | \$ (14.3) | \$ (13.6) | \$ 22.2 |

**OPCo**

| <u>OPCo</u>          |  | Pension Plans |          | OPEB      |         |
|----------------------|--|---------------|----------|-----------|---------|
|                      |  | December 31,  |          |           |         |
|                      |  | 2019          | 2018     | 2019      | 2018    |
| Components           |  | (in millions) |          |           |         |
| Net Actuarial Loss   |  | \$ 178.7      | \$ 180.7 | \$ 17.2   | \$ 35.5 |
| Prior Service Credit |  | —             | —        | (28.6)    | (34.7)  |
| Recorded as          |  |               |          |           |         |
| Regulatory Assets    |  | \$ 178.7      | \$ 180.7 | \$ (11.4) | \$ 0.8  |

**OPCo**

|  | Pension Plans   |                 | OPEB             |                |
|--|-----------------|-----------------|------------------|----------------|
|  | 2019            | 2018            | 2019             | 2018           |
| Components                             | (in millions)   |                 |                  |                |
| Actuarial (Gain) Loss During the Year  | \$ 3.3          | \$ (0.9)        | \$ (15.8)        | \$ 14.0        |
| Amortization of Actuarial Loss         | (5.3)           | (8.0)           | (2.5)            | (1.1)          |
| Prior Service Credit                   | —               | —               | (0.8)            | —              |
| Amortization of Prior Service Credit   | —               | —               | 6.9              | 6.9            |
| Change for the Year Ended December 31, | <u>\$ (2.0)</u> | <u>\$ (8.9)</u> | <u>\$ (12.2)</u> | <u>\$ 19.8</u> |

**PSO**

| <u>PSO</u>           | Pension Plans |      |      |      | OPEB |        |      |        |
|----------------------|---------------|------|------|------|------|--------|------|--------|
|                      | December 31,  |      |      |      |      |        |      |        |
|                      | 2019          |      | 2018 |      | 2019 |        | 2018 |        |
|                      | (in millions) |      |      |      |      |        |      |        |
| Components           |               |      |      |      |      |        |      |        |
| Net Actuarial Loss   | \$            | 73.0 | \$   | 77.6 | \$   | 18.2   | \$   | 28.3   |
| Prior Service Credit |               | —    |      | —    |      | (17.8) |      | (21.6) |
| Recorded as          |               |      |      |      |      |        |      |        |
| Regulatory Assets    | \$            | 73.0 | \$   | 77.6 | \$   | 0.4    | \$   | 6.7    |

**PSO**

|  | Pension Plans   |                 | OPEB            |                |
|--|-----------------|-----------------|-----------------|----------------|
|  | 2019            | 2018            | 2019            | 2018           |
| Components                             | (in millions)   |                 |                 |                |
| Actuarial (Gain) Loss During the Year  | \$ (1.7)        | \$ 3.2          | \$ (8.9)        | \$ 9.0         |
| Amortization of Actuarial Loss         | (2.9)           | (4.4)           | (1.2)           | (0.5)          |
| Prior Service Credit                   | —               | —               | (0.5)           | —              |
| Amortization of Prior Service Credit   | —               | —               | 4.3             | 4.3            |
| Change for the Year Ended December 31, | <u>\$ (4.6)</u> | <u>\$ (1.2)</u> | <u>\$ (6.3)</u> | <u>\$ 12.8</u> |

**SWEPCo**

| Components            | Pension Plans |      |      |      | OPEB |        |    |        |
|-----------------------|---------------|------|------|------|------|--------|----|--------|
|                       | December 31,  |      |      |      |      |        |    |        |
|                       | 2019          | 2018 | 2019 | 2018 |      |        |    |        |
|                       | (in millions) |      |      |      |      |        |    |        |
| Net Actuarial Loss    | \$            | 97.8 | \$   | 97.4 | \$   | 21.1   | \$ | 33.9   |
| Prior Service Credit  |               | —    |      | —    |      | (21.6) |    | (26.2) |
| Recorded as           |               |      |      |      |      |        |    |        |
| Regulatory Assets     | \$            | 97.8 | \$   | 97.4 | \$   | —      | \$ | 4.9    |
| Deferred Income Taxes |               | —    |      | —    |      | —      |    | 0.7    |
| Net of Tax AOCI       |               | —    |      | —    |      | (0.5)  |    | 2.1    |

**SWEPCo**

| Components                                    | Pension Plans |             | OPEB            |                |
|---|---------------|-------------|-----------------|----------------|
|   | 2019          | 2018        | 2019            | 2018           |
|   | (in millions) |             |                 |                |
| Actuarial (Gain) Loss During the Year         | \$ 3.8        | \$ 5.5      | \$ (11.4)       | \$ 9.8         |
| Amortization of Actuarial Loss                | (3.4)         | (5.5)       | (1.4)           | (0.6)          |
| Prior Service Credit                          | —             | —           | (0.6)           | —              |
| Amortization of Prior Service Credit          | —             | —           | 5.2             | 5.2            |
| <b>Change for the Year Ended December 31,</b> | <b>\$ 0.4</b> | <b>\$ —</b> | <b>\$ (8.2)</b> | <b>\$ 14.4</b> |

***Determination of Pension Expense***

The determination of pension expense or income is based on a market-related valuation of assets which reduces year-to-year volatility. This market-related valuation recognizes investment gains or losses over a five-year period from the year in which they occur. Investment gains or losses for this purpose are the difference between the expected return calculated using the market-related value of assets and the actual return.

***Pension and OPEB Assets***

The fair value tables within Pension and OPEB Assets present the classification of assets for AEP within the fair value hierarchy. All Level 1, 2, 3 and Other amounts can be allocated to the Registrant Subsidiaries using the percentages in the table below:

| Company   | Pension Plan |       | OPEB  |       |
|-----------|--------------|-------|-------|-------|
|           | December 31, |       |       |       |
|           | 2019         | 2018  | 2019  | 2018  |
| AEP Texas | 8.7%         | 8.7%  | 8.3%  | 8.5%  |
| APCo      | 12.7%        | 12.6% | 15.2% | 15.5% |
| I&M       | 12.6%        | 12.4% | 12.1% | 12.2% |
| OPCo      | 10.0%        | 9.9%  | 11.1% | 11.4% |
| PSO       | 5.5%         | 5.6%  | 5.5%  | 5.5%  |
| SWEPCo    | 5.9%         | 6.0%  | 6.6%  | 6.4%  |

The following table presents the classification of pension plan assets for AEP within the fair value hierarchy as of December 31, 2019:

| Asset Class   | Level 1         | Level 2           | Level 3     | Other             | Total             | Year End Allocation |
|---|-----------------|-------------------|-------------|-------------------|-------------------|---------------------|
| (in millions)                                       |                 |                   |             |                   |                   |                     |
| Equities (a):                                       |                 |                   |             |                   |                   |                     |
| Domestic  | \$ 387.8        | \$ —              | \$ —        | \$ —              | \$ 387.8          | 7.8 %               |
| International                                       | 609.1           | —                 | —           | —                 | 609.1             | 12.1 %              |
| Common Collective Trusts (c)                        | —               | —                 | —           | 547.3             | 547.3             | 10.9 %              |
| Subtotal – Equities                                 | 996.9           | —                 | —           | 547.3             | 1,544.2           | 30.8 %              |
| Fixed Income (a):                                   |                 |                   |             |                   |                   |                     |
| United States Government and Agency Securities      | (5.8)           | 1,248.6           | —           | —                 | 1,242.8           | 24.8 %              |
| Corporate Debt                                      | —               | 1,143.7           | —           | —                 | 1,143.7           | 22.8 %              |
| Foreign Debt  | —               | 211.6             | —           | —                 | 211.6             | 4.2 %               |
| State and Local Government                          | —               | 55.1              | —           | —                 | 55.1              | 1.1 %               |
| Other – Asset Backed                                | —               | 3.6               | —           | —                 | 3.6               | 0.1 %               |
| Subtotal – Fixed Income                             | (5.8)           | 2,662.6           | —           | —                 | 2,656.8           | 53.0 %              |
| Infrastructure (c)                                  | —               | —                 | —           | 85.8              | 85.8              | 1.7 %               |
| Real Estate (c)                                     | —               | —                 | —           | 239.4             | 239.4             | 4.8 %               |
| Alternative Investments (c)                         | —               | —                 | —           | 448.3             | 448.3             | 8.9 %               |
| Cash and Cash Equivalents (c)                       | —               | 24.4              | —           | 37.2              | 61.6              | 1.2 %               |
| Other – Pending Transactions and Accrued Income (b) | —               | —                 | —           | (20.7)            | (20.7)            | (0.4)%              |
| <b>Total</b>  | <b>\$ 991.1</b> | <b>\$ 2,687.0</b> | <b>\$ —</b> | <b>\$ 1,337.3</b> | <b>\$ 5,015.4</b> | <b>100.0 %</b>      |

- (a) Includes investment securities loaned to borrowers under the securities lending program. See the “Investments Held in Trust for Future Liabilities” section of Note 1 for additional information.
- (b) Amounts in “Other” column primarily represent accrued interest, dividend receivables and transactions pending settlement.
- (c) Amounts in “Other” column represent investments for which fair value is measured using net asset value per share.

The following table presents the classification of OPEB plan assets for AEP within the fair value hierarchy as of December 31, 2019:

| Asset Class   | Level 1         | Level 2         | Level 3     | Other           | Total             | Year End Allocation |
|---|-----------------|-----------------|-------------|-----------------|-------------------|---------------------|
|   | (in millions)   |                 |             |                 |                   |                     |
| Equities  |                 |                 |             |                 |                   |                     |
| Domestic  | \$ 312.2        | \$ —            | \$ —        | \$ —            | \$ 312.2          | 17.5%               |
| International                                       | 251.5           | —               | —           | —               | 251.5             | 14.1%               |
| Common Collective Trusts (b)                        | —               | —               | —           | 260.8           | 260.8             | 14.7%               |
| Subtotal – Equities                                 | 563.7           | —               | —           | 260.8           | 824.5             | 46.3%               |
| Fixed Income:                                       |                 |                 |             |                 |                   |                     |
| Common Collective Trust – Debt (b)                  | —               | —               | —           | 177.6           | 177.6             | 10.0%               |
| United States Government and Agency Securities      | (0.1)           | 214.4           | —           | —               | 214.3             | 12.0%               |
| Corporate Debt                                      | —               | 206.7           | —           | —               | 206.7             | 11.6%               |
| Foreign Debt  | —               | 35.5            | —           | —               | 35.5              | 2.0%                |
| State and Local Government                          | 58.8            | 14.8            | —           | —               | 73.6              | 4.1%                |
| Other – Asset Backed                                | —               | 0.2             | —           | —               | 0.2               | —%                  |
| Subtotal – Fixed Income                             | 58.7            | 471.6           | —           | 177.6           | 707.9             | 39.7%               |
| Trust Owned Life Insurance:                         |                 |                 |             |                 |                   |                     |
| International Equities                              | —               | 60.2            | —           | —               | 60.2              | 3.4%                |
| United States Bonds                                 | —               | 151.6           | —           | —               | 151.6             | 8.5%                |
| Subtotal – Trust Owned Life Insurance               | —               | 211.8           | —           | —               | 211.8             | 11.9%               |
| Cash and Cash Equivalents (b)                       | 26.7            | —               | —           | 6.7             | 33.4              | 1.9%                |
| Other – Pending Transactions and Accrued Income (a) | —               | —               | —           | 4.2             | 4.2               | 0.2%                |
| <b>Total</b>  | <b>\$ 649.1</b> | <b>\$ 683.4</b> | <b>\$ —</b> | <b>\$ 449.3</b> | <b>\$ 1,781.8</b> | <b>100.0%</b>       |

(a) Amounts in “Other” column primarily represent accrued interest, dividend receivables and transactions pending settlement

(b) Amounts in “Other” column represent investments for which fair value is measured using net asset value per share

The following table presents the classification of pension plan assets for AEP within the fair value hierarchy as of December 31, 2018:

| Asset Class   | Level 1         | Level 2           | Level 3     | Other             | Total             | Year End Allocation |
|---|-----------------|-------------------|-------------|-------------------|-------------------|---------------------|
| (in millions)                                       |                 |                   |             |                   |                   |                     |
| Equities (a)  |                 |                   |             |                   |                   |                     |
| Domestic  | \$ 277.3        | \$ —              | \$ —        | \$ —              | \$ 277.3          | 5.9%                |
| International                                       | 384.1           | —                 | —           | —                 | 384.1             | 8.2%                |
| Options   | —               | 18.3              | —           | —                 | 18.3              | 0.4%                |
| Common Collective Trusts (c)                        | —               | —                 | —           | 370.1             | 370.1             | 7.9%                |
| Subtotal – Equities                                 | 661.4           | 18.3              | —           | 370.1             | 1,049.8           | 22.4%               |
| Fixed Income (a)                                    |                 |                   |             |                   |                   |                     |
| United States Government and Agency Securities      | 0.2             | 1,512.5           | —           | —                 | 1,512.7           | 32.2%               |
| Corporate Debt                                      | —               | 1,082.9           | —           | —                 | 1,082.9           | 23.0%               |
| Foreign Debt  | —               | 221.6             | —           | —                 | 221.6             | 4.7%                |
| State and Local Government                          | —               | 28.2              | —           | —                 | 28.2              | 0.6%                |
| Other – Asset Backed                                | —               | 7.4               | —           | —                 | 7.4               | 0.2%                |
| Subtotal – Fixed Income                             | 0.2             | 2,852.6           | —           | —                 | 2,852.8           | 60.7%               |
| Infrastructure (c)                                  | —               | —                 | —           | 72.2              | 72.2              | 1.5%                |
| Real Estate (c)                                     | —               | —                 | —           | 220.4             | 220.4             | 4.7%                |
| Alternative Investments (c)                         | —               | —                 | —           | 444.6             | 444.6             | 9.5%                |
| Cash and Cash Equivalents (c)                       | (0.4)           | 36.3              | —           | 11.9              | 47.8              | 1.0%                |
| Other – Pending Transactions and Accrued Income (b) | —               | —                 | —           | 8.3               | 8.3               | 0.2%                |
| <b>Total</b>  | <b>\$ 661.2</b> | <b>\$ 2,907.2</b> | <b>\$ —</b> | <b>\$ 1,127.5</b> | <b>\$ 4,695.9</b> | <b>100.0%</b>       |

- (a) Includes investment securities loaned to borrowers under the securities lending program. See the “Investments Held in Trust for Future Liabilities” section of Note 1 for additional information.
- (b) Amounts in “Other” column primarily represent accrued interest, dividend receivables and transactions pending settlement.
- (c) Amounts in “Other” column represent investments for which fair value is measured using net asset value per share.

The following table presents the classification of OPEB plan assets for AEP within the fair value hierarchy as of December 31, 2018:

| Asset Class   | Level 1         | Level 2         | Level 3     | Other           | Total             | Year End Allocation |
|---|-----------------|-----------------|-------------|-----------------|-------------------|---------------------|
| (in millions)                                       |                 |                 |             |                 |                   |                     |
| Equities  |                 |                 |             |                 |                   |                     |
| Domestic  | \$ 233.3        | \$ —            | \$ —        | \$ —            | \$ 233.3          | 15.2 %              |
| International                                       | 185.9           | —               | —           | —               | 185.9             | 12.1 %              |
| Options   | —               | 4.3             | —           | —               | 4.3               | 0.3 %               |
| Common Collective Trusts (b)                        | —               | —               | —           | 226.2           | 226.2             | 14.7 %              |
| Subtotal – Equities                                 | 419.2           | 4.3             | —           | 226.2           | 649.7             | 42.3 %              |
| Fixed Income:                                       |                 |                 |             |                 |                   |                     |
| Common Collective Trust – Debt (b)                  | —               | —               | —           | 163.6           | 163.6             | 10.7 %              |
| United States Government and Agency Securities      | 0.2             | 181.5           | —           | —               | 181.7             | 11.8 %              |
| Corporate Debt                                      | —               | 188.6           | —           | —               | 188.6             | 12.3 %              |
| Foreign Debt  | —               | 35.0            | —           | —               | 35.0              | 2.3 %               |
| State and Local Government                          | 41.8            | 11.8            | —           | —               | 53.6              | 3.5 %               |
| Other – Asset Backed                                | —               | 0.2             | —           | —               | 0.2               | — %                 |
| Subtotal – Fixed Income                             | 42.0            | 417.1           | —           | 163.6           | 622.7             | 40.6 %              |
| Trust Owned Life Insurance:                         |                 |                 |             |                 |                   |                     |
| International Equities                              | —               | 49.4            | —           | —               | 49.4              | 3.2 %               |
| United States Bonds                                 | —               | 154.4           | —           | —               | 154.4             | 10.1 %              |
| Subtotal – Trust Owned Life Insurance               | —               | 203.8           | —           | —               | 203.8             | 13.3 %              |
| Cash and Cash Equivalents (b)                       | 54.4            | —               | —           | 4.8             | 59.2              | 3.9 %               |
| Other – Pending Transactions and Accrued Income (a) | —               | —               | —           | (1.2)           | (1.2)             | (0.1) %             |
| <b>Total</b>  | <b>\$ 515.6</b> | <b>\$ 625.2</b> | <b>\$ —</b> | <b>\$ 393.4</b> | <b>\$ 1,534.2</b> | <b>100.0 %</b>      |

(a) Amounts in “Other” column primarily represent accrued interest, dividend receivables and transactions pending settlement

(b) Amounts in “Other” column represent investments for which fair value is measured using net asset value per share

### Accumulated Benefit Obligation

The accumulated benefit obligation for the pension plans is as follows

| Accumulated Benefit Obligation       | AEP               | AEP Texas       | APCo            | I&M             | OPCo            | PSO             | SWEPCo          |
|--------------------------------------|-------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| (in millions)                        |                   |                 |                 |                 |                 |                 |                 |
| Qualified Pension Plan               | \$ 4,929.0        | \$ 417.5        | \$ 627.3        | \$ 586.3        | \$ 464.2        | \$ 248.9        | \$ 291.9        |
| Nonqualified Pension Plans           | 69.7              | 3.6             | 0.2             | 0.6             | 0.1             | 1.6             | 1.3             |
| <b>Total as of December 31, 2019</b> | <b>\$ 4,998.7</b> | <b>\$ 421.1</b> | <b>\$ 627.5</b> | <b>\$ 586.9</b> | <b>\$ 464.3</b> | <b>\$ 250.5</b> | <b>\$ 293.2</b> |

  

| Accumulated Benefit Obligation       | AEP               | AEP Texas       | APCo            | I&M             | OPCo            | PSO             | SWEPCo          |
|--------------------------------------|-------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| (in millions)                        |                   |                 |                 |                 |                 |                 |                 |
| Qualified Pension Plan               | \$ 4,560.7        | \$ 393.2        | \$ 588.3        | \$ 536.3        | \$ 438.3        | \$ 238.0        | \$ 271.6        |
| Nonqualified Pension Plans           | 64.9              | 3.6             | 0.2             | 0.6             | 0.2             | 2.2             | 1.2             |
| <b>Total as of December 31, 2018</b> | <b>\$ 4,625.6</b> | <b>\$ 396.8</b> | <b>\$ 588.5</b> | <b>\$ 536.9</b> | <b>\$ 438.5</b> | <b>\$ 240.2</b> | <b>\$ 272.8</b> |



**Obligations in Excess of Fair Values**

The tables below show the underfunded pension plans that had obligations in excess of plan assets.

**Projected Benefit Obligation**

|   | AEP               | AEP Texas       | APCo             | I&M             | OPCo            | PSO             | SWEPCo           |
|---|-------------------|-----------------|------------------|-----------------|-----------------|-----------------|------------------|
|   | (in millions)     |                 |                  |                 |                 |                 |                  |
| Projected Benefit Obligation  | \$ 5,236.8        | \$ 441.2        | \$ 647.2         | \$ 1.5          | \$ 0.4          | \$ 1.9          | \$ 314.2         |
| Fair Value of Plan Assets   | 5,015.4           | 435.1           | 637.0            | —               | —               | —               | 296.9            |
| <b>Underfunded Projected Benefit Obligation as of December 31, 2019</b> | <b>\$ (221.4)</b> | <b>\$ (6.1)</b> | <b>\$ (10.2)</b> | <b>\$ (1.5)</b> | <b>\$ (0.4)</b> | <b>\$ (1.9)</b> | <b>\$ (17.3)</b> |
|   | AEP               | AEP Texas       | APCo             | I&M             | OPCo            | PSO             | SWEPCo           |
|   | (in millions)     |                 |                  |                 |                 |                 |                  |
| Projected Benefit Obligation  | \$ 4,810.3        | \$ 3.8          | \$ 603.1         | \$ 1.2          | \$ 0.4          | \$ 2.3          | \$ 291.4         |
| Fair Value of Plan Assets   | 4,695.9           | —               | 593.3            | —               | —               | —               | 281.0            |
| <b>Underfunded Projected Benefit Obligation as of December 31, 2018</b> | <b>\$ (114.4)</b> | <b>\$ (3.8)</b> | <b>\$ (9.8)</b>  | <b>\$ (1.2)</b> | <b>\$ (0.4)</b> | <b>\$ (2.3)</b> | <b>\$ (10.4)</b> |

**Accumulated Benefit Obligation**

|   | AEP              | AEP Texas       | APCo            | I&M             | OPCo            | PSO             | SWEPCo          |
|---|------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|   | (in millions)    |                 |                 |                 |                 |                 |                 |
| Accumulated Benefit Obligation  | \$ 69.7          | \$ 3.6          | \$ 0.2          | \$ 0.6          | \$ 0.1          | \$ 1.6          | \$ 1.3          |
| Fair Value of Plan Assets   | —                | —               | —               | —               | —               | —               | —               |
| <b>Underfunded Accumulated Benefit Obligation as of December 31, 2019</b> | <b>\$ (69.7)</b> | <b>\$ (3.6)</b> | <b>\$ (0.2)</b> | <b>\$ (0.6)</b> | <b>\$ (0.1)</b> | <b>\$ (1.6)</b> | <b>\$ (1.3)</b> |
|   | AEP              | AEP Texas       | APCo            | I&M             | OPCo            | PSO             | SWEPCo          |
|   | (in millions)    |                 |                 |                 |                 |                 |                 |
| Accumulated Benefit Obligation  | \$ 64.9          | \$ 3.6          | \$ 0.2          | \$ 0.6          | \$ 0.2          | \$ 2.2          | \$ 1.2          |
| Fair Value of Plan Assets   | —                | —               | —               | —               | —               | —               | —               |
| <b>Underfunded Accumulated Benefit Obligation as of December 31, 2018</b> | <b>\$ (64.9)</b> | <b>\$ (3.6)</b> | <b>\$ (0.2)</b> | <b>\$ (0.6)</b> | <b>\$ (0.2)</b> | <b>\$ (2.2)</b> | <b>\$ (1.2)</b> |

**Estimated Future Benefit Payments and Contributions**

The estimated pension benefit payments and contributions to the trust are at least the minimum amount required by the Employee Retirement Income Security Act plus payment of unfunded nonqualified benefits. For the qualified pension plan, additional discretionary contributions may also be made to maintain the funded status of the plan. For OPEB plans, expected payments include the payment of unfunded benefits. The following table provides the estimated contributions and payments by Registrant for 2020.

| Company   | Pension Plans | OPEB   |
|-----------|---------------|--------|
|           | (in millions) |        |
| AEP       | \$ 6.1        | \$ 3.4 |
| AEP Texas | 0.4           | 0.1    |
| APCo      | —             | 2.0    |
| I&M       | —             | —      |
| OPCo      | —             | —      |
| PSO       | 0.1           | —      |
| SWEPCo    | 0.1           | —      |

The tables below reflect the total benefits expected to be paid from the plan or from the Registrants' assets. The payments include the participants' contributions to the plan for their share of the cost. Future benefit payments are dependent on the number of employees retiring, whether the retiring employees elect to receive pension benefits as annuities or as lump sum distributions, future integration of the benefit plans with changes to Medicare and other legislation, future levels of interest rates and variances in actuarial results. The estimated payments for the pension benefits and OPEB are as follows:

| Pension Plans                | AEP           | AEP Texas | APCo    | I&M     | OPCo    | PSO     | SWEPCo  |
|------------------------------|---------------|-----------|---------|---------|---------|---------|---------|
|                              | (in millions) |           |         |         |         |         |         |
| 2020                         | \$ 378.1      | \$ 37.5   | \$ 45.8 | \$ 40.1 | \$ 36.2 | \$ 20.9 | \$ 24.0 |
| 2021                         | 382.8         | 37.3      | 46.0    | 40.5    | 36.1    | 21.3    | 24.7    |
| 2022                         | 380.5         | 35.9      | 45.7    | 42.5    | 35.7    | 21.2    | 25.2    |
| 2023                         | 383.8         | 36.6      | 46.1    | 42.2    | 35.8    | 22.6    | 25.4    |
| 2024                         | 382.9         | 36.3      | 46.8    | 42.8    | 34.0    | 21.5    | 25.8    |
| Years 2025 to 2029, in Total | 1,800.7       | 162.2     | 217.4   | 211.6   | 161.1   | 98.3    | 119.6   |

| OPEB Benefit Payments        | AEP           | AEP Texas | APCo    | I&M     | OPCo    | PSO    | SWEPCo |
|------------------------------|---------------|-----------|---------|---------|---------|--------|--------|
|                              | (in millions) |           |         |         |         |        |        |
| 2020                         | \$ 126.3      | \$ 10.0   | \$ 22.5 | \$ 15.2 | \$ 14.8 | \$ 6.8 | \$ 7.5 |
| 2021                         | 124.0         | 10.0      | 21.8    | 15.2    | 14.2    | 6.7    | 7.7    |
| 2022                         | 125.2         | 10.4      | 21.6    | 15.5    | 14.4    | 6.9    | 8.0    |
| 2023                         | 125.0         | 10.6      | 21.2    | 15.5    | 14.3    | 7.0    | 8.2    |
| 2024                         | 124.6         | 10.7      | 21.1    | 15.4    | 14.1    | 7.1    | 8.4    |
| Years 2025 to 2029, in Total | 592.6         | 50.8      | 97.8    | 72.8    | 65.4    | 33.7   | 40.6   |

| OPEB Medicare Subsidy Receipts | AEP           | AEP Texas | APCo   | I&M  | OPCo | PSO  | SWEPCo |
|--------------------------------|---------------|-----------|--------|------|------|------|--------|
|                                | (in millions) |           |        |      |      |      |        |
| 2020                           | \$ 0.2        | \$ —      | \$ 0.1 | \$ — | \$ — | \$ — | \$ —   |
| 2021                           | 0.3           | —         | 0.2    | —    | —    | —    | —      |
| 2022                           | 0.3           | —         | 0.2    | —    | —    | —    | —      |
| 2023                           | 0.3           | —         | 0.1    | —    | —    | —    | —      |
| 2024                           | 0.3           | —         | 0.1    | —    | —    | —    | —      |
| Years 2025 to 2029, in Total   | 1.4           | —         | 0.6    | —    | —    | —    | —      |

### Components of Net Periodic Benefit Cost

The following tables provide the components of net periodic benefit cost (credit) by Registrant for the plans:

#### AEP

| <u>AEP</u>   | Pension Plans            |         |         |           | OPEB       |           |
|--|--------------------------|---------|---------|-----------|------------|-----------|
|  | Years Ended December 31, |         |         |           |            |           |
|  | 2019                     | 2018    | 2017    | 2019      | 2018       | 2017      |
|  | (in millions)            |         |         |           |            |           |
| Service Cost   | \$ 95.5                  | \$ 97.6 | \$ 96.5 | \$ 9.5    | \$ 11.6    | \$ 11.2   |
| Interest Cost  | 204.4                    | 187.8   | 203.1   | 50.5      | 47.4       | 59.3      |
| Expected Return on Plan Assets                           | (296.0)                  | (290.3) | (284.8) | (93.7)    | (102.2)    | (101.3)   |
| Amortization of Prior Service Cost (Credit)              | —                        | —       | 1.0     | (69.1)    | (69.1)     | (69.1)    |
| Amortization of Net Actuarial Loss                       | 57.6                     | 85.2    | 82.8    | 22.1      | 10.5       | 36.7      |
| Settlements  | —                        | 2.6     | —       | —         | —          | —         |
| Net Periodic Benefit Cost (Credit)                       | 61.5                     | 82.9    | 98.6    | (80.7)    | (101.8)    | (63.2)    |
| Capitalized Portion                                      | (38.6)                   | (41.1)  | (39.9)  | (3.8)     | (4.9)      | 25.6      |
| Net Periodic Benefit Cost (Credit) Recognized in Expense | \$ 22.9                  | \$ 41.8 | \$ 58.7 | \$ (84.5) | \$ (106.7) | \$ (37.6) |

**AEP Texas**

| <u>ΔEP Texas</u>  | Pension Plans            |               |               | OPEB            |                 |                 |
|---|--------------------------|---------------|---------------|-----------------|-----------------|-----------------|
|   | Years Ended December 31, |               |               |                 |                 |                 |
|   | 2019                     | 2018          | 2017          | 2019            | 2018            | 2017            |
|   | (in millions)            |               |               |                 |                 |                 |
| Service Cost  | \$ 8.6                   | \$ 9.2        | \$ 8.6        | \$ 0.8          | \$ 0.9          | \$ 0.9          |
| Interest Cost   | 17.5                     | 16.0          | 17.1          | 4.0             | 3.8             | 4.9             |
| Expected Return on Plan Assets                                  | (25.8)                   | (25.6)        | (25.0)        | (7.8)           | (8.6)           | (8.8)           |
| Amortization of Prior Service Cost                              | —                        | —             | —             | (5.9)           | (5.9)           | (5.8)           |
| Amortization of Net Actuarial Loss                              | 4.9                      | 7.2           | 7.0           | 1.8             | 0.8             | 3.2             |
| <b>Net Periodic Benefit Cost (Credit)</b>                       | <b>5.2</b>               | <b>6.8</b>    | <b>7.7</b>    | <b>(7.1)</b>    | <b>(9.0)</b>    | <b>(5.6)</b>    |
| Capitalized Portion   | (4.5)                    | (4.8)         | (4.0)         | (0.4)           | (0.5)           | 2.9             |
| <b>Net Periodic Benefit Cost (Credit) Recognized in Expense</b> | <b>\$ 0.7</b>            | <b>\$ 2.0</b> | <b>\$ 3.7</b> | <b>\$ (7.5)</b> | <b>\$ (9.5)</b> | <b>\$ (2.7)</b> |

**APCo**

| <u>APCo</u>   | Pension Plans            |               |               |                  | OPEB             |                 |
|---|--------------------------|---------------|---------------|------------------|------------------|-----------------|
|   | Years Ended December 31, |               |               |                  |                  |                 |
|   | 2019                     | 2018          | 2017          | 2019             | 2018             | 2017            |
|   | (in millions)            |               |               |                  |                  |                 |
| Service Cost  | \$ 9.4                   | \$ 9.3        | \$ 9.4        | \$ 1.0           | \$ 1.1           | \$ 1.1          |
| Interest Cost   | 25.2                     | 23.5          | 25.7          | 8.7              | 8.2              | 10.6            |
| Expected Return on Plan Assets                                  | (37.4)                   | (36.6)        | (35.8)        | (14.6)           | (16.0)           | (16.5)          |
| Amortization of Prior Service Cost (Credit)                     | —                        | —             | 0.2           | (10.1)           | (10.0)           | (10.1)          |
| Amortization of Net Actuarial Loss                              | 7.0                      | 10.6          | 10.4          | 3.7              | 1.9              | 6.3             |
| <b>Net Periodic Benefit Cost (Credit)</b>                       | <b>4.2</b>               | <b>6.8</b>    | <b>9.9</b>    | <b>(11.3)</b>    | <b>(14.8)</b>    | <b>(8.6)</b>    |
| Capitalized Portion   | (4.0)                    | (3.8)         | (4.0)         | (0.4)            | (0.5)            | 3.5             |
| <b>Net Periodic Benefit Cost (Credit) Recognized in Expense</b> | <b>\$ 0.2</b>            | <b>\$ 3.0</b> | <b>\$ 5.9</b> | <b>\$ (11.7)</b> | <b>\$ (15.3)</b> | <b>\$ (5.1)</b> |

**I&M**

| <b>J&amp;M</b>  | <b>Pension Plans</b>            |               |               |                  | <b>OPEB</b>      |                 |
|---|---------------------------------|---------------|---------------|------------------|------------------|-----------------|
|   | <b>Years Ended December 31,</b> |               |               |                  |                  |                 |
|   | <b>2019</b>                     | <b>2018</b>   | <b>2017</b>   | <b>2019</b>      | <b>2018</b>      | <b>2017</b>     |
|   | <b>(in millions)</b>            |               |               |                  |                  |                 |
| Service Cost  | \$ 13.4                         | \$ 13.6       | \$ 14.0       | \$ 1.4           | \$ 1.6           | \$ 1.6          |
| Interest Cost   | 23.8                            | 22.1          | 24.3          | 5.8              | 5.4              | 6.9             |
| Expected Return on Plan Assets                                  | (36.8)                          | (35.7)        | (34.6)        | (11.4)           | (12.3)           | (12.2)          |
| Amortization of Prior Service Cost (Credit)                     | —                               | —             | 0.2           | (9.4)            | (9.5)            | (9.4)           |
| Amortization of Net Actuarial Loss                              | 6.6                             | 9.8           | 9.7           | 2.7              | 1.2              | 4.4             |
| <b>Net Periodic Benefit Cost (Credit)</b>                       | <b>7.0</b>                      | <b>9.8</b>    | <b>13.6</b>   | <b>(10.9)</b>    | <b>(13.6)</b>    | <b>(8.7)</b>    |
| Capitalized Portion   | (3.4)                           | (5.6)         | (5.5)         | (0.4)            | (0.7)            | 3.5             |
| <b>Net Periodic Benefit Cost (Credit) Recognized in Expense</b> | <b>\$ 3.6</b>                   | <b>\$ 4.2</b> | <b>\$ 8.1</b> | <b>\$ (11.3)</b> | <b>\$ (14.3)</b> | <b>\$ (5.2)</b> |

**OPCo**

| OPCo   | Pension Plans            |        |        |          |           |          | OPEB |  |
|--|--------------------------|--------|--------|----------|-----------|----------|------|--|
|  | Years Ended December 31, |        |        |          |           |          |      |  |
|  | 2019                     | 2018   | 2017   | 2019     | 2018      | 2017     |      |  |
|  | (in millions)            |        |        |          |           |          |      |  |
| Service Cost   | \$ 7.9                   | \$ 7.7 | \$ 7.5 | \$ 0.8   | \$ 0.9    | \$ 0.9   |      |  |
| Interest Cost  | 19.1                     | 17.7   | 19.4   | 5.5      | 5.1       | 6.7      |      |  |
| Expected Return on Plan Assets                           | (29.3)                   | (28.8) | (27.9) | (10.8)   | (11.7)    | (11.9)   |      |  |
| Amortization of Prior Service Cost (Credit)              | —                        | —      | 0.1    | (6.9)    | (6.9)     | (6.9)    |      |  |
| Amortization of Net Actuarial Loss                       | 5.3                      | 8.0    | 7.8    | 2.5      | 1.1       | 4.3      |      |  |
| Net Periodic Benefit Cost (Credit)                       | 3.0                      | 4.6    | 6.9    | (8.9)    | (11.5)    | (6.9)    |      |  |
| Capitalized Portion                                      | (3.7)                    | (3.6)  | (3.3)  | (0.4)    | (0.4)     | 3.3      |      |  |
| Net Periodic Benefit Cost (Credit) Recognized in Expense | \$ (0.7)                 | \$ 1.0 | \$ 3.6 | \$ (9.3) | \$ (11.9) | \$ (3.6) |      |  |



**PSO**

| PSO  | Pension Plans            |        |        |          | OPEB     |          |
|--|--------------------------|--------|--------|----------|----------|----------|
|  | Years Ended December 31, |        |        |          |          |          |
|  | 2019                     | 2018   | 2017   | 2019     | 2018     | 2017     |
|  | (in millions)            |        |        |          |          |          |
| Service Cost   | \$ 6.5                   | \$ 7.0 | \$ 6.4 | \$ 0.6   | \$ 0.7   | \$ 0.7   |
| Interest Cost  | 10.6                     | 9.9    | 10.7   | 2.6      | 2.5      | 3.2      |
| Expected Return on Plan Assets                           | (16.3)                   | (16.1) | (15.6) | (5.1)    | (5.6)    | (5.6)    |
| Amortization of Prior Service Cost                       | —                        | —      | —      | (4.3)    | (4.3)    | (4.3)    |
| Amortization of Net Actuarial Loss                       | 2.9                      | 4.4    | 4.3    | 1.2      | 0.5      | 2.0      |
| Net Periodic Benefit Cost (Credit)                       | 3.7                      | 5.2    | 5.8    | (5.0)    | (6.2)    | (4.0)    |
| Capitalized Portion                                      | (2.4)                    | (2.6)  | (2.1)  | (0.2)    | (0.3)    | 1.4      |
| Net Periodic Benefit Cost (Credit) Recognized in Expense | \$ 1.3                   | \$ 2.6 | \$ 3.7 | \$ (5.2) | \$ (6.5) | \$ (2.6) |

**SWEPCo**

| SWEPCo   | Pension Plans            |        |        |          | OPEB     |          |
|--|--------------------------|--------|--------|----------|----------|----------|
|  | Years Ended December 31, |        |        |          |          |          |
|  | 2019                     | 2018   | 2017   | 2019     | 2018     | 2017     |
|  | (in millions)            |        |        |          |          |          |
| Service Cost   | \$ 8.6                   | \$ 9.3 | \$ 8.7 | \$ 0.8   | \$ 0.9   | \$ 0.9   |
| Interest Cost  | 12.4                     | 11.3   | 12.3   | 3.1      | 2.8      | 3.6      |
| Expected Return on Plan Assets                           | (17.7)                   | (17.3) | (17.0) | (5.9)    | (6.4)    | (6.3)    |
| Amortization of Prior Service Cost (Credit)              | —                        | —      | 0.1    | (5.2)    | (5.2)    | (5.2)    |
| Amortization of Net Actuarial Loss                       | 3.4                      | 5.1    | 4.9    | 1.4      | 0.6      | 2.3      |
| Settlements  | —                        | 0.4    | —      | —        | —        | —        |
| Net Periodic Benefit Cost (Credit)                       | 6.7                      | 8.8    | 9.0    | (5.8)    | (7.3)    | (4.7)    |
| Capitalized Portion                                      | (2.9)                    | (3.1)  | (2.7)  | (0.3)    | (0.3)    | 1.4      |
| Net Periodic Benefit Cost (Credit) Recognized in Expense | \$ 3.8                   | \$ 5.7 | \$ 6.3 | \$ (6.1) | \$ (7.6) | \$ (3.3) |

**American Electric Power System Retirement Savings Plan**

AEP sponsors the American Electric Power System Retirement Savings Plan, a defined contribution retirement savings plan for substantially all employees who are not covered by a retirement savings plan of the UMW. This qualified plan offers participants an opportunity to contribute a portion of their pay, includes features under Section 401(k) of the Internal Revenue Code and provides for company matching contributions. The matching contributions to the plan are 100% of the first 1% of eligible employee contributions and 70% of the next 5% of contributions.

The following table provides the cost for matching contributions to the retirement savings plans by Registrant:

| Company   | Year Ended December 31, |         |         |
|-----------|-------------------------|---------|---------|
|           | 2019                    | 2018    | 2017    |
|           | (in millions)           |         |         |
| AEP       | \$ 76.4                 | \$ 71.8 | \$ 74.6 |
| AEP Texas | 5.9                     | 5.7     | 6.0     |
| APCo      | 7.5                     | 7.5     | 7.4     |
| I&M       | 11.0                    | 10.5    | 10.7    |
| OPCo      | 6.6                     | 6.3     | 6.1     |
| PSO       | 4.6                     | 4.5     | 5.0     |
| SWEPCo    | 6.2                     | 5.9     | 6.0     |

### ***UMWA Benefits***

#### *Health and Welfare Benefits (Applies to AEP and APCo)*

AEP provides health and welfare benefits negotiated with the UMWA for certain unionized employees, retirees and their survivors who meet eligibility requirements. APCo also provides the same UMWA health and welfare benefits for certain unionized mining retirees and their survivors who meet eligibility requirements. AEP and APCo administer the health and welfare benefits and pay them from their general assets.

#### *Multiemployer Pension Benefits (Applies to AEP)*

UMWA pension benefits are provided through the United Mine Workers of America 1974 Pension Plan (Employer Identification Number: 52-1050282, Plan Number 002), a multiemployer plan. The UMWA pension benefits are administered by a board of trustees appointed in equal numbers by the UMWA and the Bituminous Coal Operators' Association (BCOA), an industry bargaining association. AEP makes contributions to the United Mine Workers of America 1974 Pension Plan based on provisions in its labor agreement and the plan documents. The UMWA pension plan is different from single-employer plans as an employer's contributions may be used to provide benefits to employees of other participating employers. A withdrawing employer may be subject to a withdrawal liability, which is calculated based upon that employer's share of the plan's unfunded benefit obligations. If an employer fails to make required contributions or if its payments in connection with its withdrawal liability fall short of satisfying its share of the plan's unfunded benefit obligations, the remaining employers may be allocated a greater share of the remaining unfunded plan obligations. Under the Pension Protection Act of 2006 (PPA), the UMWA pension plan was in Critical and Declining Status for the plan years ending June 30, 2019 and 2018, without utilization of extended amortization provisions. As required under the PPA, the Plan adopted a Rehabilitation Plan in 2015. The Rehabilitation Plan has been updated annually, most recently in April 2019.

The amounts contributed by AEP affiliates in 2019, 2018 and 2017 were immaterial and represent less than 5% of the total contributions in the plan's latest annual report based on the plan year ended June 30, 2018. The contributions in 2019, 2018 and 2017 did not include surcharges.

Under the terms of the UMWA pension plan, contributions will be required to continue beyond the December 31, 2020 expiration of the current collective bargaining agreement between the Cook Coal Terminal (CCT) facility and the UMWA, whether or not the term of that agreement is extended or a subsequent agreement is entered, so long as both the UMWA pension plan remains in effect and an AEP affiliate continues to operate the facility covered by the current collective bargaining agreement. The contribution rate applicable would be determined in accordance with the terms of the UMWA pension plan by reference to the National Bituminous Coal Wage Agreement, subject to periodic revisions, between the UMWA and the BCOA. If the UMWA pension plan would terminate or an AEP affiliate would cease operation of the facility without arranging for a successor operator to assume its liability, the withdrawal liability obligation would be triggered.

Based upon the planned closure of CCT in 2022, AEP records a UMWA pension withdrawal liability on the balance sheet. The UMWA pension withdrawal liability is re-measured annually and is the estimated value of the company's anticipated contributions toward its proportionate share of the plan's unfunded vested liabilities. As of December 31, 2019 and 2018, the liability balance was \$20 million and \$15 million, respectively. AEP recovers the estimated value of its UMWA pension withdrawal liability through fuel clauses in certain regulated jurisdictions. AEP records a regulatory asset on the balance sheets when the UMWA pension withdrawal liability exceeds the cumulative billings collected and a regulatory liability on the balance sheets when the cumulative billings collected exceed the withdrawal liability. As of December 31, 2019, AEP recorded a regulatory asset on the balance sheets for \$2 million and as of December 31, 2018, AEP recorded a regulatory liability on the balance sheets for \$3 million. If any portion of the UMWA pension withdrawal liability is not recoverable, it could reduce future net income and cash flows and impact financial condition.

## **9. BUSINESS SEGMENTS**

The disclosures in this note apply to all Registrants unless indicated otherwise.

### ***AEP's Reportable Segments***

AEP's primary business is the generation, transmission and distribution of electricity. Within its Vertically Integrated Utilities segment, AEP centrally dispatches generation assets and manages its overall utility operations on an integrated basis because of the substantial impact of cost-based rates and regulatory oversight. Intersegment sales and transfers are generally based on underlying contractual arrangements and agreements.

AEP's reportable segments and their related business activities are outlined below:

#### **Vertically Integrated Utilities**

- Generation, transmission and distribution of electricity for sale to retail and wholesale customers through assets owned and operated by AEGCo, APCo, I&M, KGPCo, KPCo, PSO, SWEPCo and WPCo.

#### **Transmission and Distribution Utilities**

- Transmission and distribution of electricity for sale to retail and wholesale customers through assets owned and operated by AEP Texas and OPCo.
- OPCo purchases energy and capacity at auction to serve SSO customers and provides transmission and distribution services for all connected load.

#### **AEP Transmission Holdco**

- Development, construction and operation of transmission facilities through investments in AEPTCo. These investments have FERC-approved returns on equity.
- Development, construction and operation of transmission facilities through investments in AEP's transmission-only joint ventures. These investments have PUCT-approved or FERC-approved returns on equity.

#### **Generation & Marketing**

- Contracted renewable energy investments and management services.
- Competitive generation in ERCOT and PJM.
- Marketing, risk management and retail activities in ERCOT, PJM, SPP and MISO.

The remainder of AEP's activities are presented as Corporate and Other. While not considered a reportable segment, Corporate and Other primarily includes the purchasing of receivables from certain AEP utility subsidiaries, Parent's guarantee revenue received from affiliates, investment income, interest income, interest expense, income tax expense and other nonallocated costs.

The tables below present AEP's reportable segment income statement information for the years ended December 31, 2019, 2018 and 2017 and reportable segment balance sheet information as of December 31, 2019 and 2018.

|  | Vertically<br>Integrated<br>Utilities | Transmission<br>and Distribution<br>Utilities | AEP<br>Transmission<br>Holdco | Generation &<br>Marketing | Corporate and<br>Other (a) | Reconciling<br>Adjustments | Consolidated |
|--|---------------------------------------|---|-------------------------------|---------------------------|----------------------------|----------------------------|--------------|
|  | (in millions)                         |   |                               |                           |                            |                            |              |
| 2019   |                                       |   |                               |                           |                            |                            |              |
| Revenues from  |                                       |   |                               |                           |                            |                            |              |
| External Customers                                       | \$ 9,245.7                            | \$ 4,319.0                                    | \$ 260.2                      | \$ 1,721.8                | \$ 14.7                    | \$ —                       | \$ 15,561.4  |
| Other Operating Segments                                 | 121.4                                 | 163.5   | 813.0                         | 135.8                     | 81.1                       | (1,314.8)                  | —            |
| Total Revenues   | \$ 9,367.1                            | \$ 4,482.5                                    | \$ 1,073.2                    | \$ 1,857.6                | \$ 95.8                    | \$ (1,314.8)               | \$ 15,561.4  |
| Asset Impairments and Other Related<br>Charges           | \$ 92.9                               | \$ 32.5                                       | \$ —                          | \$ 31.0                   | \$ —                       | \$ —                       | \$ 156.4     |
| Depreciation and Amortization                            | 1,447.0                               | 789.5   | 183.4                         | 69.5                      | 0.6                        | 24.5 (b)                   | 2,514.5      |
| Interest Expense   | 568.3                                 | 243.3   | 103.3                         | 30.0                      | 193.7                      | (66.1) (b)                 | 1,072.5      |
| Income Tax Expense (Benefit)                             | (97.7)                                | (25.2)  | 136.2                         | (53.8)                    | 27.6                       | —                          | (12.9)       |
| Equity Earnings (Loss) of<br>Unconsolidated Subsidiaries | 3.0                                   | —   | 72.8                          | (3.8)                     | 0.1                        | —                          | 72.1         |
| Net Income (Loss)  | \$ 985.6                              | \$ 451.0                                      | \$ 520.1                      | \$ 104.1                  | \$ (141.0)                 | \$ —                       | \$ 1,919.8   |
| Gross Property Additions                                 | \$ 2,437.4                            | \$ 2,074.3                                    | \$ 1,458.9                    | \$ 1,005.1                | \$ 14.5                    | \$ (20.4)                  | \$ 6,969.8   |
| Total Property, Plant and Equipment                      | \$ 47,323.7                           | \$ 19,773.3                                   | \$ 10,334.0                   | \$ 1,650.8                | \$ 418.4                   | \$ (354.5) (b)             | \$ 79,145.7  |
| Accumulated Depreciation and<br>Amortization             | 14,580.4                              | 3,911.2                                       | 418.9                         | 99.0                      | 184.5                      | (186.4) (b)                | 19,007.6     |
| Total Property, Plant and<br>Equipment – Net             | \$ 32,743.3                           | \$ 15,862.1                                   | \$ 9,915.1                    | \$ 1,551.8                | \$ 233.9                   | \$ (168.1) (b)             | \$ 60,138.1  |
| Total Assets   | \$ 41,228.8                           | \$ 18,757.5                                   | \$ 11,143.5                   | \$ 3,123.8                | \$ 5,440.0 (c)             | \$ (3,801.3) (b) (d)       | \$ 75,892.3  |
| Investments in Equity Method<br>Investees                | \$ 41.7                               | \$ 2.5  | \$ 787.5                      | \$ 459.5                  | \$ 65.4                    | \$ —                       | \$ 1,356.6   |
| Long-term Debt Due Within One<br>Year:                   |                                       |   |                               |                           |                            |                            |              |
| Affiliated   | \$ 20.0                               | \$ —  | \$ —                          | \$ —                      | \$ —                       | \$ (20.0)                  | \$ —         |
| Nonaffiliated  | 704.7                                 | 392.2   | —                             | —                         | 501.8 (e)                  | —                          | 1,598.7      |
| Long-term Debt:  |                                       |   |                               |                           |                            |                            |              |
| Affiliated   | 39.0                                  | —   | —                             | —                         | —                          | (39.0)                     | —            |
| Nonaffiliated  | 12,162.0                              | 6,248.1                                       | 3,593.8                       | —                         | 3,122.9 (e)                | —                          | 25,126.8     |
| Total Long-term Debt                                     | \$ 12,925.7                           | \$ 6,640.3                                    | \$ 3,593.8                    | \$ —                      | \$ 3,624.7                 | \$ (59.0)                  | \$ 26,725.5  |

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|  | Vertically<br>Integrated<br>Utilities | Transmission<br>and Distribution<br>Utilities | AEP<br>Transmission<br>Holdco | Generation &<br>Marketing | Corporate and<br>Other (a) | Reconciling<br>Adjustments  | Consolidated       |
|--|---------------------------------------|---|-------------------------------|---------------------------|----------------------------|-----------------------------|--------------------|
|  | (in millions)                         |   |                               |                           |                            |                             |                    |
| <b>2018</b>  |                                       |   |                               |                           |                            |                             |                    |
| Revenues from  |                                       |   |                               |                           |                            |                             |                    |
| External Customers                                   | \$ 9,556.7                            | \$ 4,552.3                                    | \$ 248.6                      | \$ 1,818.1                | \$ 20.0                    | \$ —                        | \$ 16,195.7        |
| Other Operating Segments                             | 88.8                                  | 100.8   | 555.5                         | 122.2                     | 75.1                       | (942.4)                     | —                  |
| <b>Total Revenues</b>                                | <u>\$ 9,645.5</u>                     | <u>\$ 4,653.1</u>                             | <u>\$ 804.1</u>               | <u>\$ 1,940.3</u>         | <u>\$ 95.1</u>             | <u>\$ (942.4)</u>           | <u>\$ 16,195.7</u> |
| Asset Impairments and Other<br>Related Charges       | \$ 3.4                                | \$ —  | \$ —                          | \$ 47.7                   | \$ 19.5                    | \$ —                        | \$ 70.6            |
| Depreciation and Amortization                        | 1,316.2                               | 734.1   | 137.8                         | 41.0                      | 0.4                        | 57.1 (b)                    | 2,286.6            |
| Interest Expense                                     | 567.8                                 | 248.1   | 90.7                          | 14.9                      | 122.6                      | (59.7) (b)                  | 984.4              |
| Income Tax Expense (Benefit)                         | 5.7                                   | 42.4  | 95.3                          | (49.2)                    | 21.1                       | —                           | 115.3              |
| Equity Earnings of Unconsolidated<br>Subsidiaries    | 2.7                                   | —   | 68.7                          | 0.5                       | 1.2                        | —                           | 73.1               |
| <b>Net Income (Loss)</b>                             | <u>\$ 995.5</u>                       | <u>\$ 527.4</u>                               | <u>\$ 373.0</u>               | <u>\$ 134.7</u>           | <u>\$ (99.3)</u>           | <u>\$ —</u>                 | <u>\$ 1,931.3</u>  |
| Gross Property Additions                             | \$ 2,282.2                            | \$ 2,162.4                                    | \$ 1,614.1                    | \$ 289.7                  | \$ 16.3                    | \$ (39.2)                   | \$ 6,325.5         |
| Total Property, Plant and Equipment                  | \$ 45,365.1                           | \$ 18,126.7                                   | \$ 8,659.5                    | \$ 893.3                  | \$ 395.2                   | \$ (354.6) (b)              | \$ 73,085.2        |
| Accumulated Depreciation and<br>Amortization         | 13,822.5                              | 3,833.7                                       | 282.8                         | 47.0                      | 186.6                      | (186.5) (b)                 | 17,986.1           |
| <b>Total Property, Plant and<br/>Equipment – Net</b> | <u>\$ 31,542.6</u>                    | <u>\$ 14,293.0</u>                            | <u>\$ 8,376.7</u>             | <u>\$ 846.3</u>           | <u>\$ 208.6</u>            | <u>\$ (168.1) (b)</u>       | <u>\$ 55,099.1</u> |
| <b>Total Assets</b>                                  | <u>\$ 38,874.3</u>                    | <u>\$ 17,083.4</u>                            | <u>\$ 9,543.7</u>             | <u>\$ 1,979.7</u>         | <u>\$ 4,036.5 (c)</u>      | <u>\$ (2,714.8) (b) (d)</u> | <u>\$ 68,802.8</u> |
| Investments in Equity Method<br>Investees            | \$ 39.6                               | \$ 2.9  | \$ 750.9                      | \$ 26.7                   | \$ 26.1                    | \$ —                        | \$ 846.2           |
| <b>Long-term Debt Due Within One<br/>Year:</b>       |                                       |   |                               |                           |                            |                             |                    |
| Nonaffiliated  | \$ 1,066.3                            | \$ 549.1                                      | \$ 85.0                       | \$ 0.1                    | \$ (2.0) (e)               | \$ —                        | \$ 1,698.5         |
| <b>Long-term Debt:</b>                               |                                       |   |                               |                           |                            |                             |                    |
| Affiliated   | 50.0                                  | —   | —                             | 32.2                      | —                          | (82.2)                      | —                  |
| Nonaffiliated  | 11,442.7                              | 5,048.8                                       | 2,888.6                       | (0.3)                     | 2,268.4                    | —                           | 21,648.2           |
| <b>Total Long-term Debt</b>                          | <u>\$ 12,559.0</u>                    | <u>\$ 5,597.9</u>                             | <u>\$ 2,973.6</u>             | <u>\$ 32.0</u>            | <u>\$ 2,266.4 (e)</u>      | <u>\$ (82.2)</u>            | <u>\$ 23,346.7</u> |

|  | Vertically<br>Integrated<br>Utilities | Transmission<br>and Distribution<br>Utilities | AEP<br>Transmission<br>Holdco | Generation &<br>Marketing | Corporate and<br>Other(a) | Reconciling<br>Adjustments | Consolidated       |
|--|---------------------------------------|---|-------------------------------|---------------------------|---------------------------|----------------------------|--------------------|
| (in millions)  |                                       |   |                               |                           |                           |                            |                    |
| 2017   |                                       |   |                               |                           |                           |                            |                    |
| Revenues from  |                                       |   |                               |                           |                           |                            |                    |
| External Customers   | \$ 9,095.1                            | \$ 4,328.9                                    | \$ 178.4                      | \$ 1,771.4                | \$ 51.1                   | \$ —                       | \$ 15,424.9        |
| Other Operating Segments   | 96.9                                  | 90.4  | 588.3                         | 103.7                     | 69.7                      | (949.0)                    | —                  |
| <b>Total Revenues</b>  | <b>\$ 9,192.0</b>                     | <b>\$ 4,419.3</b>                             | <b>\$ 766.7</b>               | <b>\$ 1,875.1</b>         | <b>\$ 120.8</b>           | <b>\$ (949.0)</b>          | <b>\$ 15,424.9</b> |
| Asset Impairments and Other<br>Related Charges   | \$ 33.6                               | \$ —  | \$ —                          | \$ 53.5                   | \$ —                      | \$ —                       | \$ 87.1            |
| Depreciation and Amortization  | 1,142.5                               | 667.5   | 102.2                         | 24.2                      | 0.3                       | 60.5 (b)                   | 1,997.2            |
| Interest Expense   | 540.0                                 | 244.1   | 72.8                          | 18.5                      | 63.9                      | (44.3) (b)                 | 895.0              |
| Income Tax Expense   | 425.6                                 | 127.2   | 189.8                         | 189.7                     | 37.4                      | —                          | 969.7              |
| Equity Earnings (Loss) of<br>Unconsolidated Subsidiaries   | \$ (3.8)                              | \$ —  | \$ 88.6                       | \$ —                      | \$ (2.4)                  | \$ —                       | \$ 82.4            |
| <b>Net Income (Loss)</b>   | <b>\$ 803.3</b>                       | <b>\$ 636.4</b>                               | <b>\$ 355.6</b>               | <b>\$ 166.0</b>           | <b>\$ (32.4)</b>          | <b>\$ —</b>                | <b>\$ 1,928.9</b>  |
| Gross Property Additions   | \$ 2,343.2                            | \$ 1,558.4                                    | \$ 1,542.8                    | \$ 328.5                  | \$ 15.6                   | \$ (90.4)                  | \$ 5,698.1         |
| Total Assets   | \$ 37,579.7                           | \$ 16,060.7                                   | \$ 8,141.8                    | \$ 2,009.8                | \$ 3,959.1                | (c) \$ (3,022.0) (b) (d)   | \$ 64,729.1        |
| (a) Corporate and Other primarily includes the purchasing of receivables from certain AEP utility subsidiaries. This segment also includes Parent's guarantee revenue received from affiliates, investment income, interest income, interest expense and other nonallocated costs.<br>(b) Includes eliminations due to an intercompany finance lease.<br>(c) Includes elimination of AEP Parent's investments in wholly-owned subsidiary companies.<br>(d) Reconciling Adjustments for Total Assets primarily include elimination of intercompany advances to affiliates and intercompany accounts receivable.<br>(e) Amounts reflect the impact of fair value hedge accounting. See "Accounting for Fair Value Hedging Strategies" section of Note 10 for additional information. |                                       |   |                               |                           |                           |                            |                    |

**Registrant Subsidiaries' Reportable Segments (Applies to all Registrant Subsidiaries except AEPTCo)**

The Registrant Subsidiaries each have one reportable segment, an integrated electricity generation, transmission and distribution business for APCo, I&M, PSO and SWEPCo, and an integrated electricity transmission and distribution business for AEP Texas and OPCo. Other activities are insignificant. The Registrant Subsidiaries' operations are managed on an integrated basis because of the substantial impact of cost-based rates and regulatory oversight on the business process, cost structures and operating results.

### AEPTCo's Reportable Segments

AEPTCo Parent is the holding company of seven FERC-regulated transmission-only electric utilities. The seven State Transcos have been identified as operating segments of AEPTCo under the accounting guidance for "Segment Reporting." The State Transcos business consists of developing, constructing and operating transmission facilities at the request of the RTOs in which they operate and in replacing and upgrading facilities, assets and components of the existing AEP transmission system as needed to maintain reliability standards and provide service to AEP's wholesale and retail customers. The State Transcos are regulated for rate-making purposes exclusively by the FERC and earn revenues through tariff rates charged for the use of their electric transmission systems.

AEPTCo's Chief Operating Decision Maker makes operating decisions, allocates resources to and assesses performance based on these operating segments. The seven State Transcos operating segments all have similar economic characteristics and meet all of the criteria under the accounting guidance for "Segment Reporting" to be aggregated into one operating segment. As a result, AEPTCo has one reportable segment. The remainder of AEPTCo's activity is presented in AEPTCo Parent. While not considered a reportable segment, AEPTCo Parent represents the activity of the holding company which primarily relates to debt financing activity and general corporate activities.

The tables below present AEPTCo's reportable segment income statement information for the years ended December 31, 2019, 2018 and 2017 and reportable segment balance sheet information as of December 31, 2019 and 2018.

|   | State Transcos    | AEPTCo Parent         | Reconciling<br>Adjustments | AEPTCo<br>Consolidated |
|---|-------------------|-----------------------|----------------------------|------------------------|
| 2019  | (in millions)     |                       |                            |                        |
| Revenues from                                       |                   |                       |                            |                        |
| External Customers                                  | \$ 214.6          | \$ —                  | \$ —                       | \$ 214.6               |
| Sales to AEP Affiliates                             | 806.7             | —                     | —                          | 806.7                  |
| Other Revenues                                      | 0.1               | —                     | —                          | 0.1                    |
| <b>Total Revenues</b>                               | <b>\$ 1,021.4</b> | <b>\$ —</b>           | <b>\$ —</b>                | <b>\$ 1,021.4</b>      |
| Depreciation and Amortization                       | \$ 176.0          | \$ —                  | \$ —                       | \$ 176.0               |
| Interest Income                                     | 1.3               | 123.8                 | (122.1) (a)                | 3.0                    |
| Allowance for Equity Funds Used During Construction | 84.3              | —                     | —                          | 84.3                   |
| Interest Expense                                    | 97.4              | 122.1                 | (122.1) (a)                | 97.4                   |
| Income Tax Expense                                  | 117.1             | 0.3                   | —                          | 117.4                  |
| <b>Net Income</b>                                   | <b>\$ 438.6</b>   | <b>\$ 1.1 (b)</b>     | <b>\$ —</b>                | <b>\$ 439.7</b>        |
| Gross Property Additions                            | \$ 1,419.5        | \$ —                  | \$ —                       | \$ 1,419.5             |
| Total Transmission Property                         | \$ 9,893.2        | \$ —                  | \$ —                       | \$ 9,893.2             |
| Accumulated Depreciation and Amortization           | 402.3             | —                     | —                          | 402.3                  |
| <b>Total Transmission Property - Net</b>            | <b>\$ 9,490.9</b> | <b>\$ —</b>           | <b>\$ —</b>                | <b>\$ 9,490.9</b>      |
| Notes Receivable - Affiliated                       | \$ —              | \$ 3,427.3            | \$ (3,427.3) (c)           | \$ —                   |
| <b>Total Assets</b>                                 | <b>\$ 9,865.0</b> | <b>\$ 3,519.1 (d)</b> | <b>\$ (3,493.3) (e)</b>    | <b>\$ 9,890.8</b>      |
| <b>Total Long-Term Debt</b>                         | <b>\$ 3,465.0</b> | <b>\$ 3,427.3</b>     | <b>\$ (3,465.0) (c)</b>    | <b>\$ 3,427.3</b>      |

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| 2018  | State Transcos    | AEPTCo Parent  | Reconciling<br>Adjustments | AEPTCo<br>Consolidated |
|---|-------------------|----------------|----------------------------|------------------------|
|   | (in millions)     |                |                            |                        |
| Revenues from                                       |                   |                |                            |                        |
| External Customers                                  | \$ 177.0          | \$ —           | \$ —                       | \$ 177.0               |
| Sales to AEP Affiliates                             | 598.9             | —              | —                          | 598.9                  |
| Other Revenues                                      | 0.2               | —              | —                          | 0.2                    |
| <b>Total Revenues</b>                               | <u>\$ 776.1</u>   | <u>\$ —</u>    | <u>\$ —</u>                | <u>\$ 776.1</u>        |
| Depreciation and Amortization                       | \$ 133.9          | \$ —           | \$ —                       | \$ 133.9               |
| Interest Income                                     | 1.3               | 104.6          | (103.4) (a)                | 2.5                    |
| Allowance for Equity Funds Used During Construction | 70.6              | —              | —                          | 70.6                   |
| Interest Expense                                    | 83.2              | 103.4          | (103.4) (a)                | 83.2                   |
| Income Tax Expense                                  | 83.9              | 0.2            | —                          | 84.1                   |
| <b>Net Income</b>                                   | \$ 314.9          | \$ 1.0 (b)     | \$ —                       | \$ 315.9               |
| Gross Property Additions                            | \$ 1,570.8        | \$ —           | \$ —                       | \$ 1,570.8             |
| Total Transmission Property                         | \$ 8,268.1        | \$ —           | \$ —                       | \$ 8,268.1             |
| Accumulated Depreciation and Amortization           | 271.9             | —              | —                          | 271.9                  |
| <b>Total Transmission Property - Net</b>            | <u>\$ 7,996.2</u> | <u>\$ —</u>    | <u>\$ —</u>                | <u>\$ 7,996.2</u>      |
| <b>Notes Receivable - Affiliated</b>                | \$ —              | \$ 2,823.0     | \$ (2,823.0) (c)           | \$ —                   |
| <b>Total Assets</b>                                 | \$ 8,406.8        | \$ 2,857.1 (d) | \$ (2,869.8) (e)           | \$ 8,394.1             |
| <b>Total Long-Term Debt</b>                         | \$ 2,850.0        | \$ 2,823.0     | \$ (2,850.0) (c)           | \$ 2,823.0             |

| 2017  | State Transcos  | AEPTCo Parent  | Reconciling<br>Adjustments | AEPTCo<br>Consolidated |
|---|-----------------|----------------|----------------------------|------------------------|
|   | (in millions)   |                |                            |                        |
| Revenues from                                       |                 |                |                            |                        |
| External Customers                                  | \$ 138.0        | \$ —           | \$ —                       | \$ 138.0               |
| Sales to AEP Affiliates                             | 568.1           | —              | —                          | 568.1                  |
| Other   | 0.8             | —              | —                          | 0.8                    |
| <b>Total Revenues</b>                               | <u>\$ 706.9</u> | <u>\$ —</u>    | <u>\$ —</u>                | <u>\$ 706.9</u>        |
| Depreciation and Amortization                       | \$ 95.7         | \$ —           | \$ —                       | \$ 95.7                |
| Interest Income                                     | 0.7             | 82.9           | (82.4) (a)                 | 1.2                    |
| Allowance for Equity Funds Used During Construction | 49.0            | —              | —                          | 49.0                   |
| Interest Expense                                    | 70.2            | 82.4           | (82.4) (a)                 | 70.2                   |
| Income Tax Expense (Benefit)                        | 142.0           | 0.2            | —                          | 142.2                  |
| <b>Net Income (Loss)</b>                            | \$ 270.4        | \$ 0.3 (b)     | \$ —                       | \$ 270.7               |
| Gross Property Additions                            | \$ 1,522.5      | \$ —           | \$ —                       | \$ 1,522.5             |
| <b>Total Assets</b>                                 | \$ 7,086.9      | \$ 2,590.1 (d) | \$ (2,594.9) (e)           | \$ 7,082.1             |

- (a) Elimination of intercompany interest income/interest expense on affiliated debt arrangement.  
(b) Includes elimination of AEPTCo Parent's equity earnings in the State Transcos  
(c) Elimination of intercompany debt  
(d) Includes elimination of AEPTCo Parent's investments in the State Transcos  
(e) Primarily relates to elimination of Notes Receivable from the State Transcos



## **10. DERIVATIVES AND HEDGING**

The disclosures in this note apply to all Registrants unless indicated otherwise. For the periods presented, AEPTCo did not have any derivative and hedging activity.

### **OBJECTIVES FOR UTILIZATION OF DERIVATIVE INSTRUMENTS**

AEPSC is agent for and transacts on behalf of AEP subsidiaries, including the Registrant Subsidiaries. AEPEP is agent for and transacts on behalf of other AEP subsidiaries.

The Registrants are exposed to certain market risks as major power producers and participants in the electricity, capacity, natural gas, coal and emission allowance markets. These risks include commodity price risks which may be subject to capacity risk, interest rate risk and credit risk. These risks represent the risk of loss that may impact the Registrants due to changes in the underlying market prices or rates. Management utilizes derivative instruments to manage these risks.

### **STRATEGIES FOR UTILIZATION OF DERIVATIVE INSTRUMENTS TO ACHIEVE OBJECTIVES**

#### ***Risk Management Strategies***

The strategy surrounding the use of derivative instruments primarily focuses on managing risk exposures, future cash flows and creating value utilizing both economic and formal hedging strategies. The risk management strategies also include the use of derivative instruments for trading purposes which focus on seizing market opportunities to create value driven by expected changes in the market prices of the commodities. To accomplish these objectives, the Registrants primarily employ risk management contracts including physical and financial forward purchase-and-sale contracts and, to a lesser extent, OTC swaps and options. Not all risk management contracts meet the definition of a derivative under the accounting guidance for "Derivatives and Hedging." Derivative risk management contracts elected normal under the normal purchases and normal sales scope exception are not subject to the requirements of this accounting guidance.

The Registrants utilize power, capacity, coal, natural gas, interest rate and, to a lesser extent, heating oil, gasoline and other commodity contracts to manage the risk associated with the energy business. The Registrants utilize interest rate derivative contracts in order to manage the interest rate exposure associated with the commodity portfolio. For disclosure purposes, such risks are grouped as "Commodity," as these risks are related to energy risk management activities. The Registrants also utilize derivative contracts to manage interest rate risk associated with debt financing. For disclosure purposes, these risks are grouped as "Interest Rate." The amount of risk taken is determined by the Commercial Operations, Energy Supply and Finance groups in accordance with established risk management policies as approved by the Finance Committee of the Board of Directors.

The following tables represent the gross notional volume of the Registrants' outstanding derivative contracts:

**Notional Volume of Derivative Instruments  
December 31, 2019**

| Primary Risk Exposure           | Unit of Measure | AEP      | AEP Texas | APCo | I&M  | OPCo | PSO  | SWEPCo |
|---------------------------------|-----------------|----------|-----------|------|------|------|------|--------|
| (in millions)                   |                 |          |           |      |      |      |      |        |
| Commodity                       |                 |          |           |      |      |      |      |        |
| Power                           | MWhs            | 365.9    | —         | 61.0 | 26.8 | 7.1  | 14.9 | 4.4    |
| Natural Gas                     | MMBtus          | 40.7     | —         | —    | —    | —    | —    | 11.6   |
| Heating Oil and Gasoline        | Gallons         | 6.9      | 1.8       | 1.1  | 0.6  | 1.4  | 0.7  | 0.9    |
| Interest Rate                   | USD             | \$ 140.1 | \$ —      | \$ — | \$ — | \$ — | \$ — | \$ —   |
| Interest Rate on Long-term Debt | USD             | \$ 625.0 | \$ —      | \$ — | \$ — | \$ — | \$ — | \$ —   |

**December 31, 2018**

| Primary Risk Exposure           | Unit of Measure | AEP      | AEP Texas | APCo | I&M  | OPCo | PSO  | SWEPCo |
|---------------------------------|-----------------|----------|-----------|------|------|------|------|--------|
| (in millions)                   |                 |          |           |      |      |      |      |        |
| Commodity                       |                 |          |           |      |      |      |      |        |
| Power                           | MWhs            | 371.1    | —         | 66.4 | 40.9 | 7.8  | 15.2 | 4.5    |
| Natural Gas                     | MMBtus          | 87.9     | —         | 4.0  | 2.3  | —    | —    | 15.2   |
| Heating Oil and Gasoline        | Gallons         | 7.4      | 1.5       | 1.4  | 0.7  | 1.8  | 0.7  | 0.8    |
| Interest Rate                   | USD             | \$ 37.7  | \$ —      | \$ — | \$ — | \$ — | \$ — | \$ —   |
| Interest Rate on Long-term Debt | USD             | \$ 500.0 | \$ —      | \$ — | \$ — | \$ — | \$ — | \$ —   |

***Fair Value Hedging Strategies (Applies to AEP)***

Parent enters into interest rate derivative transactions as part of an overall strategy to manage the mix of fixed-rate and floating-rate debt. Certain interest rate derivative transactions effectively modify exposure to interest rate risk by converting a portion of fixed-rate debt to a floating rate. Provided specific criteria are met, these interest rate derivatives may be designated as fair value hedges.

***Cash Flow Hedging Strategies***

The Registrants utilize cash flow hedges on certain derivative transactions for the purchase and sale of power ("Commodity") in order to manage the variable price risk related to forecasted purchases and sales. Management monitors the potential impacts of commodity price changes and, where appropriate, enters into derivative transactions to protect profit margins for a portion of future electricity sales and purchases. The Registrants do not hedge all commodity price risk.

The Registrants utilize a variety of interest rate derivative transactions in order to manage interest rate risk exposure. The Registrants also utilize interest rate derivative contracts to manage interest rate exposure related to future borrowings of fixed-rate debt. The Registrants do not hedge all interest rate exposure.

## ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND THE IMPACT ON THE FINANCIAL STATEMENTS

The accounting guidance for “Derivatives and Hedging” requires recognition of all qualifying derivative instruments as either assets or liabilities on the balance sheets at fair value. The fair values of derivative instruments accounted for using MTM accounting or hedge accounting are based on exchange prices and broker quotes. If a quoted market price is not available, the estimate of fair value is based on the best information available including valuation models that estimate future energy prices based on existing market and broker quotes, supply and demand market data and assumptions. In order to determine the relevant fair values of the derivative instruments, the Registrants apply valuation adjustments for discounting, liquidity and credit quality.

Credit risk is the risk that a counterparty will fail to perform on the contract or fail to pay amounts due. Liquidity risk represents the risk that imperfections in the market will cause the price to vary from estimated fair value based upon prevailing market supply and demand conditions. Since energy markets are imperfect and volatile, there are inherent risks related to the underlying assumptions in models used to fair value risk management contracts. Unforeseen events may cause reasonable price curves to differ from actual price curves throughout a contract’s term and at the time a contract settles. Consequently, there could be significant adverse or favorable effects on future net income and cash flows if market prices are not consistent with management’s estimates of current market consensus for forward prices in the current period. This is particularly true for longer term contracts. Cash flows may vary based on market conditions, margin requirements and the timing of settlement of risk management contracts.

According to the accounting guidance for “Derivatives and Hedging,” the Registrants reflect the fair values of derivative instruments subject to netting agreements with the same counterparty net of related cash collateral. For certain risk management contracts, the Registrants are required to post or receive cash collateral based on third-party contractual agreements and risk profiles. AEP netted cash collateral received from third-parties against short-term and long-term risk management assets in the amounts of \$5 million and \$18 million as of December 31, 2019 and 2018, respectively. AEP netted cash collateral paid to third-parties against short-term and long-term risk management liabilities in the amounts of \$39 million and \$4 million as of December 31, 2019 and 2018, respectively. The netted cash collateral from third-parties against short-term and long-term risk management assets and netted cash collateral paid to third-parties against short-term and long-term risk management liabilities were immaterial for the other Registrants as of December 31, 2019 and 2018.



The following tables represent the gross fair value of the Registrants' derivative activity on the balance sheets:

**AEP**

| Fair Value of Derivative Instruments<br>December 31, 2019     |                           |                   |                   |  |   |  |
|---|---------------------------|-------------------|-------------------|--|---|--|
| Balance Sheet Location  | Risk Management Contracts | Hedging Contracts |                   | Gross Amounts of Risk Management Assets/Liabilities Recognized | Gross Amounts Offset in the Statement of Financial Position (b) | Net Amounts of Assets/Liabilities Presented in the Statement of Financial Position (c) |
|   | Commodity (a)             | Commodity (a)     | Interest Rate (a) |  |   |  |
| (in millions)   |                           |                   |                   |  |   |  |
| Current Risk Management Assets                                | \$ 513.9                  | \$ 11.5           | \$ 6.5            | \$ 531.9   | \$ (359.1)  | \$ 172.8   |
| Long-term Risk Management Assets                              | 290.8                     | 11.0              | 12.6              | 314.4  | (47.8)  | 266.6  |
| <b>Total Assets</b>   | <b>804.7</b>              | <b>22.5</b>       | <b>19.1</b>       | <b>846.3</b>   | <b>(406.9)</b>  | <b>439.4</b>   |
| Current Risk Management Liabilities                           | 424.5                     | 72.3              | —                 | 496.8  | (382.5)   | 114.3  |
| Long-term Risk Management Liabilities                         | 244.5                     | 75.7              | —                 | 320.2  | (58.4)  | 261.8  |
| <b>Total Liabilities</b>                                      | <b>669.0</b>              | <b>148.0</b>      | <b>—</b>          | <b>817.0</b>   | <b>(440.9)</b>  | <b>376.1</b>   |
| <b>Total MTM Derivative Contract Net Assets (Liabilities)</b> | <b>\$ 135.7</b>           | <b>\$ (125.5)</b> | <b>\$ 19.1</b>    | <b>\$ 29.3</b>   | <b>\$ 34.0</b>  | <b>\$ 63.3</b>   |
| December 31, 2018   |                           |                   |                   |  |   |  |
| Balance Sheet Location  | Risk Management Contracts | Hedging Contracts |                   | Gross Amounts of Risk Management Assets/Liabilities Recognized | Gross Amounts Offset in the Statement of Financial Position (b) | Net Amounts of Assets/Liabilities Presented in the Statement of Financial Position (c) |
|   | Commodity (a)             | Commodity (a)     | Interest Rate (a) |  |   |  |
| (in millions)   |                           |                   |                   |  |   |  |
| Current Risk Management Assets                                | \$ 397.5                  | \$ 28.5           | \$ —              | \$ 426.0   | \$ (263.2)  | \$ 162.8   |
| Long-term Risk Management Assets                              | 276.4                     | 16.0              | —                 | 292.4  | (38.4)  | 254.0  |
| <b>Total Assets</b>   | <b>673.9</b>              | <b>44.5</b>       | <b>—</b>          | <b>718.4</b>   | <b>(301.6)</b>  | <b>416.8</b>   |
| Current Risk Management Liabilities                           | 293.8                     | 13.2              | 2.0               | 309.0  | (254.0)   | 55.0   |
| Long-term Risk Management Liabilities                         | 225.7                     | 56.1              | 15.4              | 297.2  | (33.8)  | 263.4  |
| <b>Total Liabilities</b>                                      | <b>519.5</b>              | <b>69.3</b>       | <b>17.4</b>       | <b>606.2</b>   | <b>(287.8)</b>  | <b>318.4</b>   |
| <b>Total MTM Derivative Contract Net Assets (Liabilities)</b> | <b>\$ 154.4</b>           | <b>\$ (24.8)</b>  | <b>\$ (17.4)</b>  | <b>\$ 112.2</b>  | <b>\$ (13.8)</b>  | <b>\$ 98.4</b>   |

AEP Texas

| Fair Value of Derivative Instruments<br>December 31, 2019 |   |   |  |
|---|---|---|--|
| Balance Sheet Location                                    | Risk Management<br>Contracts -<br>Commodity (a) | Gross Amounts Offset<br>in the Statement of<br>Financial Position (b) | Net Amounts of Assets/Liabilities<br>Presented in the Statement<br>of Financial Position (c) |
|   | (in millions)                                   |   |  |
| Current Risk Management Assets                            | \$ —  | \$ —  | \$ —   |
| Long-term Risk Management Assets                          | —   | —   | —  |
| <b>Total Assets</b>                                       | <b>—</b>  | <b>—</b>  | <b>—</b>   |
| Current Risk Management Liabilities                       | —   | —   | —  |
| Long-term Risk Management Liabilities                     | —   | —   | —  |
| <b>Total Liabilities</b>                                  | <b>—</b>  | <b>—</b>  | <b>—</b>   |
| <b>Total MTM Derivative Contract Net Assets</b>           | <b>\$ —</b>                                     | <b>\$ —</b>   | <b>\$ —</b>  |

| December 31, 2018   |   |   |  |
|---|---|---|--|
| Balance Sheet Location  | Risk Management<br>Contracts -<br>Commodity (a) | Gross Amounts Offset<br>in the Statement of<br>Financial Position (b) | Net Amounts of Assets/Liabilities<br>Presented in the Statement<br>of Financial Position (c) |
|   | (in millions)                                   |   |  |
| Current Risk Management Assets                                | \$ —  | \$ —  | \$ —   |
| Long-term Risk Management Assets                              | —   | —   | —  |
| <b>Total Assets</b>   | <b>—</b>  | <b>—</b>  | <b>—</b>   |
| Current Risk Management Liabilities                           | 0.7   | (0.5)   | 0.2  |
| Long-term Risk Management Liabilities                         | —   | —   | —  |
| <b>Total Liabilities</b>                                      | <b>0.7</b>                                      | <b>(0.5)</b>  | <b>0.2</b>   |
| <b>Total MTM Derivative Contract Net Assets (Liabilities)</b> | <b>\$ (0.7)</b>                                 | <b>\$ 0.5</b>   | <b>\$ (0.2)</b>  |

APCo

| Fair Value of Derivative Instruments<br>December 31, 2019     |   |   |  |
|---|---|---|--|
| Balance Sheet Location  | Risk Management<br>Contracts -<br>Commodity (a) | Gross Amounts Offset<br>in the Statement of<br>Financial Position (b) | Net Amounts of Assets/Liabilities<br>Presented in the Statement<br>of Financial Position (c) |
|   | (in millions)                                   |   |  |
| Current Risk Management Assets                                | \$ 124.4  | \$ (85.0)   | \$ 39.4  |
| Long-term Risk Management Assets                              | 0.9   | (0.8)   | 0.1  |
| <b>Total Assets</b>   | <b>125.3</b>                                    | <b>(85.8)</b>   | <b>39.5</b>  |
| Current Risk Management Liabilities                           | 86.2  | (84.3)  | 1.9  |
| Long-term Risk Management Liabilities                         | 0.7   | (0.7)   | —  |
| <b>Total Liabilities</b>                                      | <b>86.9</b>                                     | <b>(85.0)</b>   | <b>1.9</b>   |
| <b>Total MTM Derivative Contract Net Assets (Liabilities)</b> | <b>\$ 38.4</b>                                  | <b>\$ (0.8)</b>   | <b>\$ 37.6</b>   |

| December 31, 2018                |   |   |  |
|----------------------------------|---|---|--|
| Balance Sheet Location           | Risk Management<br>Contracts -<br>Commodity (a) | Gross Amounts Offset<br>in the Statement of<br>Financial Position (b) | Net Amounts of Assets/Liabilities<br>Presented in the Statement<br>of Financial Position (c) |
|                                  | (in millions)                                   |   |  |
| Current Risk Management Assets   | \$ 114.4  | \$ (57.2)   | \$ 57.2  |
| Long-term Risk Management Assets | 3.1   | (2.2)   | 0.9  |

|   |                |                 |                |
|---|----------------|-----------------|----------------|
| <b>Total Assets</b>   | <u>117.5</u>   | <u>(59.4)</u>   | <u>58.1</u>    |
| Current Risk Management Liabilities                           | 56.7           | (56.3)          | 0.4            |
| Long-term Risk Management Liabilities                         | <u>2.4</u>     | <u>(2.2)</u>    | <u>0.2</u>     |
| <b>Total Liabilities</b>                                      | <u>59.1</u>    | <u>(58.5)</u>   | <u>0.6</u>     |
| <b>Total MTM Derivative Contract Net Assets (Liabilities)</b> | <u>\$ 58.4</u> | <u>\$ (0.9)</u> | <u>\$ 57.5</u> |

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**I&M**

| Fair Value of Derivative Instruments<br>December 31, 2019     |   |   |  |
|---|---|---|--|
| Balance Sheet Location  | Risk Management<br>Contracts -<br>Commodity (a) | Gross Amounts Offset<br>in the Statement of<br>Financial Position (b) | Net Amounts of Assets/Liabilities<br>Presented in the Statement<br>of Financial Position (c) |
|   | (in millions)                                   |   |  |
| Current Risk Management Assets                                | \$ 66.9   | \$ (57.1)   | \$ 9.8   |
| Long-term Risk Management Assets                              | 0.5   | (0.4)   | 0.1  |
| <b>Total Assets</b>   | <b>67.4</b>                                     | <b>(57.5)</b>   | <b>9.9</b>   |
| Current Risk Management Liabilities                           | 55.2  | (54.7)  | 0.5  |
| Long-term Risk Management Liabilities                         | 0.4   | (0.4)   | —  |
| <b>Total Liabilities</b>                                      | <b>55.6</b>                                     | <b>(55.1)</b>   | <b>0.5</b>   |
| <b>Total MTM Derivative Contract Net Assets (Liabilities)</b> | <b>\$ 11.8</b>                                  | <b>\$ (2.4)</b>   | <b>\$ 9.4</b>  |
| December 31, 2018   |   |   |  |
| Balance Sheet Location  | Risk Management<br>Contracts -<br>Commodity (a) | Gross Amounts Offset<br>in the Statement of<br>Financial Position (b) | Net Amounts of Assets/Liabilities<br>Presented in the Statement<br>of Financial Position (c) |
|   | (in millions)                                   |   |  |
| Current Risk Management Assets                                | \$ 50.4   | \$ (41.8)   | \$ 8.6   |
| Long-term Risk Management Assets                              | 2.0   | (1.4)   | 0.6  |
| <b>Total Assets</b>   | <b>52.4</b>                                     | <b>(43.2)</b>   | <b>9.2</b>   |
| Current Risk Management Liabilities                           | 41.1  | (40.8)  | 0.3  |
| Long-term Risk Management Liabilities                         | 1.6   | (1.5)   | 0.1  |
| <b>Total Liabilities</b>                                      | <b>42.7</b>                                     | <b>(42.3)</b>   | <b>0.4</b>   |
| <b>Total MTM Derivative Contract Net Assets (Liabilities)</b> | <b>\$ 9.7</b>                                   | <b>\$ (0.9)</b>   | <b>\$ 8.8</b>  |

**OPCo**

| Fair Value of Derivative Instruments<br>December 31, 2019 |   |   |  |
|---|---|---|--|
| Balance Sheet Location                                    | Risk Management<br>Contracts -<br>Commodity (a) | Gross Amounts Offset<br>in the Statement of<br>Financial Position (b) | Net Amounts of Assets/Liabilities<br>Presented in the Statement<br>of Financial Position (c) |
|   | (in millions)                                   |   |  |
| Current Risk Management Assets                            | \$ —  | \$ —  | \$ —   |
| Long-term Risk Management Assets                          | —   | —   | —  |
| <b>Total Assets</b>                                       | <b>—</b>  | <b>—</b>  | <b>—</b>   |
| Current Risk Management Liabilities                       | 7.3   | —   | 7.3  |
| Long-term Risk Management Liabilities                     | 96.3  | —   | 96.3   |
| <b>Total Liabilities</b>                                  | <b>103.6</b>                                    | <b>—</b>  | <b>103.6</b>   |
| <b>Total MTM Derivative Contract Net Liabilities</b>      | <b>\$ (103.6)</b>                               | <b>\$ —</b>   | <b>\$ (103.6)</b>  |
| December 31, 2018   |   |   |  |
| Balance Sheet Location                                    | Risk Management<br>Contracts -<br>Commodity (a) | Gross Amounts Offset<br>in the Statement of<br>Financial Position (b) | Net Amounts of Assets/Liabilities<br>Presented in the Statement<br>of Financial Position (c) |
|   | (in millions)                                   |   |  |
| Current Risk Management Assets                            | \$ —  | \$ —  | \$ —   |
| Long-term Risk Management Assets                          | —   | —   | —  |

|   |                   |               |                  |
|---|-------------------|---------------|------------------|
| <b>Total Assets</b>   | <u>—</u>          | <u>—</u>      | <u>—</u>         |
| Current Risk Management Liabilities                           | 6.4               | (0.6)         | 5.8              |
| Long-term Risk Management Liabilities                         | <u>93.8</u>       | <u>—</u>      | <u>93.8</u>      |
| <b>Total Liabilities</b>                                      | <u>100.2</u>      | <u>(0.6)</u>  | <u>99.6</u>      |
| <b>Total MTM Derivative Contract Net Assets (Liabilities)</b> | <u>\$ (100.2)</u> | <u>\$ 0.6</u> | <u>\$ (99.6)</u> |

PSO

| Fair Value of Derivative Instruments<br>December 31, 2019 |   |   |  |
|---|---|---|--|
| Balance Sheet Location                                    | Risk Management<br>Contracts -<br>Commodity (a) | Gross Amounts Offset<br>in the Statement of<br>Financial Position (b) | Net Amounts of Assets/Liabilities<br>Presented in the Statement<br>of Financial Position (c) |
|   | (in millions)                                   |   |  |
| Current Risk Management Assets                            | \$ 16.3   | \$ (0.5)  | \$ 15.8  |
| Long-term Risk Management Assets                          | —   | —   | —  |
| <b>Total Assets</b>                                       | <b>16.3</b>                                     | <b>(0.5)</b>  | <b>15.8</b>  |
| Current Risk Management Liabilities                       | 0.5   | (0.5)   | —  |
| Long-term Risk Management Liabilities                     | —   | —   | —  |
| <b>Total Liabilities</b>                                  | <b>0.5</b>                                      | <b>(0.5)</b>  | <b>—</b>   |
| <b>Total MTM Derivative Contract Net Assets</b>           | <b>\$ 15.8</b>                                  | <b>\$ —</b>   | <b>\$ 15.8</b>   |

| December 31, 2018                               |   |   |  |
|---|---|---|--|
| Balance Sheet Location                          | Risk Management<br>Contracts -<br>Commodity (a) | Gross Amounts Offset<br>in the Statement of<br>Financial Position (b) | Net Amounts of Assets/Liabilities<br>Presented in the Statement<br>of Financial Position (c) |
|   | (in millions)                                   |   |  |
| Current Risk Management Assets                  | \$ 10.9   | \$ (0.5)  | \$ 10.4  |
| Long-term Risk Management Assets                | —   | —   | —  |
| <b>Total Assets</b>                             | <b>10.9</b>                                     | <b>(0.5)</b>  | <b>10.4</b>  |
| Current Risk Management Liabilities             | 1.7   | (0.7)   | 1.0  |
| Long-term Risk Management Liabilities           | —   | —   | —  |
| <b>Total Liabilities</b>                        | <b>1.7</b>                                      | <b>(0.7)</b>  | <b>1.0</b>   |
| <b>Total MTM Derivative Contract Net Assets</b> | <b>\$ 9.2</b>                                   | <b>\$ 0.2</b>   | <b>\$ 9.4</b>  |

SWEP Co

| Fair Value of Derivative Instruments<br>December 31, 2019 |   |   |  |
|---|---|---|--|
| Balance Sheet Location                                    | Risk Management<br>Contracts -<br>Commodity (a) | Gross Amounts Offset<br>in the Statement of<br>Financial Position (b) | Net Amounts of Assets/Liabilities<br>Presented in the Statement<br>of Financial Position (c) |
|   | (in millions)                                   |   |  |
| Current Risk Management Assets                            | \$ 6.5  | \$ (0.1)  | \$ 6.4   |
| Long-term Risk Management Assets                          | —   | —   | —  |
| <b>Total Assets</b>                                       | <b>6.5</b>                                      | <b>(0.1)</b>  | <b>6.4</b>   |
| Current Risk Management Liabilities                       | 2.0   | (0.1)   | 1.9  |
| Long-term Risk Management Liabilities                     | 3.1   | —   | 3.1  |
| <b>Total Liabilities</b>                                  | <b>5.1</b>                                      | <b>(0.1)</b>  | <b>5.0</b>   |
| <b>Total MTM Derivative Contract Net Assets</b>           | <b>\$ 1.4</b>                                   | <b>\$ —</b>   | <b>\$ 1.4</b>  |

| December 31, 2018                |   |   |  |
|----------------------------------|---|---|--|
| Balance Sheet Location           | Risk Management<br>Contracts -<br>Commodity (a) | Gross Amounts Offset<br>in the Statement of<br>Financial Position (b) | Net Amounts of Assets/Liabilities<br>Presented in the Statement<br>of Financial Position (c) |
|                                  | (in millions)                                   |   |  |
| Current Risk Management Assets   | \$ 5.6  | \$ (0.8)  | \$ 4.8   |
| Long-term Risk Management Assets | —   | —   | —  |
| <b>Total Assets</b>              | <b>5.6</b>                                      | <b>(0.8)</b>  | <b>4.8</b>   |

|   |               |               |               |
|---|---------------|---------------|---------------|
| Current Risk Management Liabilities             | 1.5           | (1.1)         | 0.4           |
| Long-term Risk Management Liabilities           | 2.2           | ---           | 2.2           |
| <b>Total Liabilities</b>                        | <b>3.7</b>    | <b>(1.1)</b>  | <b>2.6</b>    |
| <b>Total MTM Derivative Contract Net Assets</b> | <b>\$ 1.9</b> | <b>\$ 0.3</b> | <b>\$ 2.2</b> |

- (a) Derivative instruments within these categories are reported gross. These instruments are subject to master netting agreements and are presented on the balance sheets on a net basis in accordance with the accounting guidance for "Derivatives and Hedging."
- (b) Amounts include counterparty netting of risk management and hedging contracts and associated cash collateral in accordance with the accounting guidance for "Derivatives and Hedging."
- (c) All derivative contracts subject to a master netting arrangement or similar agreement are offset in the statement of financial position.

The tables below present the Registrants' activity of derivative risk management contracts:

| Amount of Gain (Loss) Recognized on<br>Risk Management Contracts<br>Year Ended December 31, 2019 |                 |                 |                 |                |                  |                |                |
|--|-----------------|-----------------|-----------------|----------------|------------------|----------------|----------------|
| Location of Gain (Loss)  | AEP             | AEP Texas       | APCo            | I&M            | OPCo             | PSO            | SWEPCo         |
|  | (in millions)   |                 |                 |                |                  |                |                |
| Vertically Integrated Utilities Revenues   | \$ 0.7          | \$ —            | \$ —            | \$ —           | \$ —             | \$ —           | \$ —           |
| Generation & Marketing Revenues  | 25.1            | —               | —               | —              | —                | —              | —              |
| Electric Generation, Transmission and Distribution Revenues                                      | —               | —               | 0.1             | 0.5            | —                | —              | 0.1            |
| Purchased Electricity for Resale   | 1.9             | —               | 1.6             | 0.1            | —                | —              | —              |
| Other Operation  | (0.8)           | (0.2)           | (0.1)           | (0.1)          | (0.2)            | (0.1)          | (0.1)          |
| Maintenance  | (0.8)           | (0.2)           | (0.2)           | (0.1)          | (0.2)            | (0.1)          | (0.1)          |
| Regulatory Assets (a)  | (3.7)           | 0.7             | 0.3             | 0.3            | (3.7)            | 1.2            | (1.5)          |
| Regulatory Liabilities (a)   | 102.6           | —               | 2.4             | 24.5           | 10.1             | 34.6           | 26.6           |
| <b>Total Gain on Risk Management Contracts</b>   | <b>\$ 125.0</b> | <b>\$ 0.3</b>   | <b>\$ 4.1</b>   | <b>\$ 25.2</b> | <b>\$ 6.0</b>    | <b>\$ 35.6</b> | <b>\$ 25.0</b> |
| Amount of Gain (Loss) Recognized on<br>Risk Management Contracts<br>Year Ended December 31, 2018 |                 |                 |                 |                |                  |                |                |
| Location of Gain (Loss)  | AEP             | AEP Texas       | APCo            | I&M            | OPCo             | PSO            | SWEPCo         |
|  | (in millions)   |                 |                 |                |                  |                |                |
| Vertically Integrated Utilities Revenues   | \$ (10.4)       | \$ —            | \$ —            | \$ —           | \$ —             | \$ —           | \$ —           |
| Generation & Marketing Revenues  | 38.9            | —               | —               | —              | —                | —              | —              |
| Electric Generation, Transmission and Distribution Revenues                                      | —               | —               | (1.9)           | (8.2)          | —                | —              | 0.1            |
| Purchased Electricity for Resale   | 8.6             | —               | 7.6             | 0.8            | —                | —              | —              |
| Other Operation  | 1.7             | 0.4             | 0.2             | 0.2            | 0.3              | 0.2            | 0.2            |
| Maintenance  | 1.9             | 0.4             | 0.4             | 0.2            | 0.4              | 0.2            | 0.2            |
| Regulatory Assets (a)  | 27.9            | (0.7)           | (0.7)           | 7.1            | 24.9             | (1.1)          | (1.2)          |
| Regulatory Liabilities (a)   | 222.7           | (0.5)           | 135.5           | 11.6           | —                | 37.3           | 11.9           |
| <b>Total Gain (Loss) on Risk Management Contracts</b>  | <b>\$ 291.3</b> | <b>\$ (0.4)</b> | <b>\$ 141.1</b> | <b>\$ 11.7</b> | <b>\$ 25.6</b>   | <b>\$ 36.6</b> | <b>\$ 11.2</b> |
| Amount of Gain (Loss) Recognized on<br>Risk Management Contracts<br>Year Ended December 31, 2017 |                 |                 |                 |                |                  |                |                |
| Location of Gain (Loss)  | AEP             | AEP Texas       | APCo            | I&M            | OPCo             | PSO            | SWEPCo         |
|  | (in millions)   |                 |                 |                |                  |                |                |
| Vertically Integrated Utilities Revenues   | \$ 6.1          | \$ —            | \$ —            | \$ —           | \$ —             | \$ —           | \$ —           |
| Generation & Marketing Revenues  | 42.8            | —               | —               | —              | —                | —              | —              |
| Electric Generation, Transmission and Distribution Revenues                                      | —               | —               | 0.6             | 5.3            | —                | —              | 0.1            |
| Purchased Electricity for Resale   | 5.6             | —               | 2.0             | 0.6            | —                | —              | —              |
| Other Operation  | 0.8             | 0.1             | 0.1             | 0.1            | 0.1              | 0.1            | 0.1            |
| Maintenance  | 0.7             | 0.2             | 0.1             | 0.1            | 0.1              | 0.1            | 0.1            |
| Regulatory Assets (a)  | (29.4)          | —               | —               | (7.4)          | (22.0)           | —              | 0.3            |
| Regulatory Liabilities (a)   | 109.4           | 0.1             | 40.4            | 15.9           | —                | 24.8           | 24.3           |
| <b>Total Gain (Loss) on Risk Management Contracts</b>  | <b>\$ 136.0</b> | <b>\$ 0.4</b>   | <b>\$ 43.2</b>  | <b>\$ 14.6</b> | <b>\$ (21.8)</b> | <b>\$ 25.0</b> | <b>\$ 24.9</b> |

(a) Represents realized and unrealized gains and losses subject to regulatory accounting treatment recorded as either current or noncurrent on the balance sheets



Certain qualifying derivative instruments have been designated as normal purchase or normal sale contracts, as provided in the accounting guidance for "Derivatives and Hedging." Derivative contracts that have been designated as normal purchases or normal sales under that accounting guidance are not subject to MTM accounting treatment and are recognized on the statements of income on an accrual basis.

The accounting for the changes in the fair value of a derivative instrument depends on whether it qualifies for and has been designated as part of a hedging relationship and further, on the type of hedging relationship. Depending on the exposure, management designates a hedging instrument as a fair value hedge or a cash flow hedge.

For contracts that have not been designated as part of a hedging relationship, the accounting for changes in fair value depends on whether the derivative instrument is held for trading purposes. Unrealized and realized gains and losses on derivative instruments held for trading purposes are included in revenues on a net basis on the statements of income. Unrealized and realized gains and losses on derivative instruments not held for trading purposes are included in revenues or expenses on the statements of income depending on the relevant facts and circumstances. Certain derivatives that economically hedge future commodity risk are recorded in the same expense line item on the statements of income as that of the associated risk. However, unrealized and some realized gains and losses in regulated jurisdictions for both trading and non-trading derivative instruments are recorded as regulatory assets (for losses) or regulatory liabilities (for gains) in accordance with the accounting guidance for "Regulated Operations."

**Accounting for Fair Value Hedging Strategies (Applies to AEP)**

For fair value hedges (i.e. hedging the exposure to changes in the fair value of an asset, liability or an identified portion thereof attributable to a particular risk), the gain or loss on the derivative instrument as well as the offsetting gain or loss on the hedged item associated with the hedged risk impacts net income during the period of change.

AEP records realized and unrealized gains or losses on interest rate swaps that are designated and qualify for fair value hedge accounting treatment and any offsetting changes in the fair value of the debt being hedged in Interest Expense on the statements of income.

The following table shows the impacts recognized on the balance sheets related to the hedged items in fair value hedging relationships:

|                    | Carrying Amount of the Hedged Assets/(Liabilities) |                   | Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets/(Liabilities) |                   |
|--------------------|--|-------------------|---|-------------------|
|                    | December 31, 2019                                  | December 31, 2018 | December 31, 2019   | December 31, 2018 |
|                    | (in millions)                                      |                   |   |                   |
| Long-term Debt (a) | \$ (510.8)   | \$ (478.3)        | \$ (14.5)   | \$ 17.4           |

(a) Amounts included on the balance sheets within Long-term Debt Due within One Year and Long-term Debt, respectively.

The pretax effects of fair value hedge accounting on income were as follows:

|   | Twelve Months Ended December 31, |           |          |
|---|----------------------------------|-----------|----------|
|   | 2019                             | 2018      | 2017     |
|   | (in millions)                    |           |          |
| Gain (Loss) on Interest Rate Contracts:                 |                                  |           |          |
| Gain (Loss) on Fair Value Hedging Instruments (a)       | \$ 31.9                          | \$ (11.3) | \$ (4.8) |
| Gain (Loss) on Fair Value Portion of Long-term Debt (a) | (31.9)                           | 11.3      | 4.8      |

(a) Gain (Loss) is included in Interest Expense on the statements of income

### Accounting for Cash Flow Hedging Strategies

For cash flow hedges (i.e. hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the Registrants initially report the gain or loss on the derivative instrument as a component of Accumulated Other Comprehensive Income (Loss) on the balance sheets until the period the hedged item affects net income.

Realized gains and losses on derivative contracts for the purchase and sale of power designated as cash flow hedges are included in Total Revenues or Purchased Electricity for Resale on the statements of income or in Regulatory Assets or Regulatory Liabilities on the balance sheets, depending on the specific nature of the risk being hedged. During the years ended 2019, 2018 and 2017, AEP applied cash flow hedging to outstanding power derivatives. During the years ended 2019, 2018 and 2017, the Registrant Subsidiaries did not apply cash flow hedging to outstanding power derivatives.

The Registrants reclassify gains and losses on interest rate derivative hedges related to debt financings from Accumulated Other Comprehensive Income (Loss) on the balance sheets into Interest Expense on the statements of income in those periods in which hedged interest payments occur. During the years ended 2019, 2018 and 2017, AEP applied cash flow hedging to outstanding interest rate derivatives. During the years ended 2019 and 2017, the Registrant Subsidiaries did not apply cash flow hedging to outstanding interest rate derivatives. During the year ended 2018, SWEPCo applied cash flow hedging to outstanding interest rate derivatives and the other Registrant Subsidiaries did not.

For details on effective cash flow hedges included in Accumulated Other Comprehensive Income (Loss) on the balance sheets and the reasons for changes in cash flow hedges, see Note 3 - Comprehensive Income.

Cash flow hedges included in Accumulated Other Comprehensive Income (Loss) on the balance sheets were:

#### Impact of Cash Flow Hedges on AEP's Balance Sheets

|   | December 31, 2019  |               | December 31, 2018 |               |
|---|--|---------------|-------------------|---------------|
|   | Commodity  | Interest Rate | Commodity         | Interest Rate |
|   | (in millions)  |               |                   |               |
| AOI Gain (Loss) Net of Tax  | \$ (103.5)   | \$ (11.5) (a) | \$ (23.0)         | \$ (12.6)     |
| Portion Expected to be Reclassified to Net Income During the Next Twelve Months | (51.7)   | (2.1)         | 10.4              | (1.1)         |
| (a)   | Includes \$4 million related to AEP's investment in joint venture wind farms acquired as part of the purchase of Sempra Renewables LLC. See "Sempra Renewables LLC" section of Note 17 for additional information. |               |                   |               |

As of December 31, 2019 the maximum length of time that AEP is hedging its exposure to variability in future cash flows related to forecasted transactions is 120 months and 132 months for commodity and interest rate hedges, respectively.

Impact of Cash Flow Hedges on the Registrant Subsidiaries' Balance Sheets

| Company   | December 31, 2019 |   | December 31, 2018 |   |
|-----------|-------------------|---|-------------------|---|
|           | Interest Rate     |   | Interest Rate     |   |
|           | AOCI Gain (Loss)  | Expected to be<br>Reclassified to<br>Net Income During<br>the Next<br>Twelve Months | AOCI Gain (Loss)  | Expected to be<br>Reclassified to<br>Net Income During<br>the Next<br>Twelve Months |
|           | Net of Tax        |   | Net of Tax        |   |
|           |                   | (in millions)   |                   |   |
| AEP Texas | \$ (3.4)          | \$ (1.1)  | \$ (4.4)          | \$ (1.1)  |
| APCo      | 0.9               | 0.9   | 1.8               | 0.9   |
| I&M       | (9.9)             | (1.6)   | (11.5)            | (1.6)   |
| OPCo      | —                 | —   | 1.0               | 1.0   |
| PSO       | 1.1               | 1.0   | 2.1               | 1.0   |
| SWEPCo    | (1.8)             | (1.5)   | (3.3)             | (1.5)   |

The actual amounts reclassified from Accumulated Other Comprehensive Income (Loss) to Net Income can differ from the estimate above due to market price changes.

**Credit Risk**

Management mitigates credit risk in wholesale marketing and trading activities by assessing the creditworthiness of potential counterparties before entering into transactions with them and continuing to evaluate their creditworthiness on an ongoing basis. Management uses credit agency ratings and current market-based qualitative and quantitative data as well as financial statements to assess the financial health of counterparties on an ongoing basis.

Master agreements are typically used to facilitate the netting of cash flows associated with a single counterparty and may include collateral requirements. Collateral requirements in the form of cash, letters of credit and parental/affiliate guarantees may be obtained as security from counterparties in order to mitigate credit risk. Some master agreements include margining, which requires a counterparty to post cash or letters of credit in the event exposure exceeds the established threshold. The threshold represents an unsecured credit limit which may be supported by a parental/affiliate guaranty, as determined in accordance with AEP's credit policy. In addition, master agreements allow for termination and liquidation of all positions in the event of a default including a failure or inability to post collateral when required.

**Collateral Triggering Events**

*Credit Downgrade Triggers (Applies to AEP, APCo, I&M, PSO and SWEPCo)*

A limited number of derivative contracts include collateral triggering events, which include a requirement to maintain certain credit ratings. On an ongoing basis, AEP's risk management organization assesses the appropriateness of these collateral triggering events in contracts. The Registrants have not experienced a downgrade below a specified credit rating threshold that would require the posting of additional collateral. The Registrants had no derivative contracts with collateral triggering events in a net liability position as of December 31, 2019 and 2018.

*Cross-Default Triggers (Applies to AEP, APCo, I&M and SWEPCo)*

In addition, a majority of non-exchange-traded commodity contracts contain cross-default provisions that, if triggered, would permit the counterparty to declare a default and require settlement of the outstanding payable. These cross-default provisions could be triggered if there was a non-performance event by Parent or the obligor under outstanding debt or a third-party obligation that is \$50 million or greater. On an ongoing basis, AEP's risk management organization assesses the appropriateness of these cross-default provisions in the contracts. The following tables represent: (a) the fair value of these derivative liabilities subject to cross-default provisions prior to consideration of contractual netting arrangements, (b) the amount that the exposure has been reduced by cash collateral posted and (c) if a cross-default provision would have been triggered, the settlement amount that would be required after considering contractual netting arrangements:

| December 31, 2019 |   |                                     |   |
|-------------------|---|-------------------------------------|---|
| Company           | Liabilities for<br>Contracts with Cross<br>Default Provisions<br>Prior to Contractual<br>Netting Arrangements | Amount of Cash<br>Collateral Posted | Additional<br>Settlement<br>Liability if Cross<br>Default Provision<br>is Triggered |
|                   | (in millions)   |                                     |   |
| AEP               | \$ 267.3  | \$ 3.7                              | \$ 246.7  |
| APCo              | 2.3   | —                                   | 0.4   |
| I&M               | 1.3   | —                                   | 0.2   |
| SWEPCo            | 5.1   | —                                   | 5.1   |
| December 31, 2018 |   |                                     |   |
| Company           | Liabilities for<br>Contracts with Cross<br>Default Provisions<br>Prior to Contractual<br>Netting Arrangements | Amount of Cash<br>Collateral Posted | Additional<br>Settlement<br>Liability if Cross<br>Default Provision<br>is Triggered |
|                   | (in millions)   |                                     |   |
| AEP               | \$ 225.5  | \$ 1.8                              | \$ 181.0  |
| APCo              | 0.9   | —                                   | —   |
| I&M               | 0.5   | —                                   | —   |
| SWEPCo            | 2.3   | —                                   | 2.3   |
|                   | 259   |                                     |   |

## 11. FAIR VALUE MEASUREMENTS

The disclosures in this note apply to all Registrants except AEPTCo unless indicated otherwise.

### *Fair Value Measurements of Long-term Debt (Applies to all Registrants)*

The fair values of Long-term Debt are based on quoted market prices, without credit enhancements, for the same or similar issues and the current interest rates offered for instruments with similar maturities classified as Level 2 measurement inputs. These instruments are not marked-to-market. The estimates presented are not necessarily indicative of the amounts that could be realized in a current market exchange. The fair value of AEP's Equity Units (Level 1) are valued based on publicly traded securities issued by AEP.

The book values and fair values of Long-term Debt are summarized in the following table:

| Company   | December 31,  |             |             |             |
|-----------|---------------|-------------|-------------|-------------|
|           | 2019          |             | 2018        |             |
|           | Book Value    | Fair Value  | Book Value  | Fair Value  |
|           | (in millions) |             |             |             |
| AEP (a)   | \$ 26,725.5   | \$ 30,172.0 | \$ 23,346.7 | \$ 24,093.9 |
| AEP Texas | 4,558.4       | 4,981.5     | 3,881.3     | 3,964.6     |
| AEPTCo    | 3,427.3       | 3,868.0     | 2,823.0     | 2,782.4     |
| APCo      | 4,363.8       | 5,253.1     | 4,062.6     | 4,473.3     |
| I&M       | 3,050.2       | 3,453.8     | 3,035.4     | 3,070.2     |
| OPCo      | 2,082.0       | 2,554.3     | 1,716.6     | 1,919.7     |
| PSO       | 1,386.2       | 1,603.3     | 1,287.0     | 1,361.9     |
| SWEPCo    | 2,655.6       | 2,927.9     | 2,713.4     | 2,670.2     |

- (a) The fair value amount includes debt related to AEP's Equity Units issued in March 2019 and had a fair value of \$871 million as of December 31, 2019. See "Equity Units" section of Note 14 for additional information.

### *Fair Value Measurements of Other Temporary Investments (Applies to AEP)*

Other Temporary Investments include marketable securities that management intends to hold for less than one year and investments by AEP's protected cell of EIS. See "Other Temporary Investments" section of Note 1 for additional information.

The following is a summary of Other Temporary Investments:

| Other Temporary Investments                 | December 31, 2019 |                        |                         |                 |
|---|-------------------|------------------------|-------------------------|-----------------|
|   | Cost              | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value      |
|   | (in millions)     |                        |                         |                 |
| Restricted Cash and Other Cash Deposits (a) | \$ 214.7          | \$ —                   | \$ —                    | \$ 214.7        |
| Fixed Income Securities – Mutual Funds (b)  | 123.2             | 0.1                    | —                       | 123.3           |
| Equity Securities – Mutual Funds            | 29.2              | 21.3                   | —                       | 50.5            |
| <b>Total Other Temporary Investments</b>    | <b>\$ 367.1</b>   | <b>\$ 21.4</b>         | <b>\$ —</b>             | <b>\$ 388.5</b> |

| Other Temporary Investments                 | December 31, 2018 |                        |                         |                 |
|---|-------------------|------------------------|-------------------------|-----------------|
|   | Cost              | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value      |
|   | (in millions)     |                        |                         |                 |
| Restricted Cash and Other Cash Deposits (a) | \$ 230.6          | \$ —                   | \$ —                    | \$ 230.6        |
| Fixed Income Securities – Mutual Funds (b)  | 106.6             | —                      | (2.3)                   | 104.3           |
| Equity Securities – Mutual Funds            | 17.8              | 16.4                   | —                       | 34.2            |
| <b>Total Other Temporary Investments</b>    | <b>\$ 355.0</b>   | <b>\$ 16.4</b>         | <b>\$ (2.3)</b>         | <b>\$ 369.1</b> |

(a) Primarily represents amounts held for the repayment of debt.

(b) Primarily short and intermediate maturities which may be sold and do not contain maturity dates.

The following table provides the activity for fixed income and equity securities within Other Temporary Investments:

|   | Years Ended December 31, |      |      |
|---|--------------------------|------|------|
|   | 2019                     | 2018 | 2017 |
|   | (in millions)            |      |      |
| Proceeds from Investment Sales            | \$ 21.2                  | \$ — | \$ — |
| Purchases of Investments                  | 45.0                     | 3.1  | 14.2 |
| Gross Realized Gains on Investment Sales  | —                        | —    | —    |
| Gross Realized Losses on Investment Sales | 0.4                      | —    | —    |

For details of the reasons for changes in Securities Available for Sale included in Accumulated Other Comprehensive Income (Loss) for the years ended December 31, 2018 and 2017, see Note 3 - Comprehensive Income

**Fair Value Measurements of Trust Assets for Decommissioning and SNF Disposal (Applies to AEP and I&M)**

Securities held in trust funds for decommissioning nuclear facilities and for the disposal of SNF are recorded at fair value. See “Nuclear Trust Funds” section of Note I.

The following is a summary of nuclear trust fund investments:

|  | December 31,      |                        |                                  |                   |                        |                                  |
|--|-------------------|------------------------|----------------------------------|-------------------|------------------------|----------------------------------|
|  | 2019              |                        |                                  | 2018              |                        |                                  |
|  | Fair Value        | Gross Unrealized Gains | Other-Than-Temporary Impairments | Fair Value        | Gross Unrealized Gains | Other-Than-Temporary Impairments |
|  | (in millions)     |                        |                                  |                   |                        |                                  |
| Cash and Cash Equivalents                            | \$ 15.3           | \$ —                   | \$ —                             | \$ 22.5           | \$ —                   | \$ —                             |
| Fixed Income Securities:                             |                   |                        |                                  |                   |                        |                                  |
| United States Government                             | 1,112.5           | 55.5                   | (6.1)                            | 996.1             | 26.7                   | (7.1)                            |
| Corporate Debt                                       | 72.4              | 5.3                    | (1.6)                            | 52.4              | 1.1                    | (1.9)                            |
| State and Local Government                           | 7.6               | 0.7                    | (0.2)                            | 8.6               | 0.6                    | (0.2)                            |
| Subtotal Fixed Income Securities                     | 1,192.5           | 61.5                   | (7.9)                            | 1,057.1           | 28.4                   | (9.2)                            |
| Equity Securities - Domestic (a)                     | 1,767.9           | 1,144.4                | —                                | 1,395.3           | 766.3                  | —                                |
| <b>Spent Nuclear Fuel and Decommissioning Trusts</b> | <b>\$ 2,975.7</b> | <b>\$ 1,205.9</b>      | <b>\$ (7.9)</b>                  | <b>\$ 2,474.9</b> | <b>\$ 794.7</b>        | <b>\$ (9.2)</b>                  |

(a) Amount reported as Gross Unrealized Gains includes unrealized gains of \$1.1 billion and \$784 million and unrealized losses of \$5 million and \$18 million as of December 31, 2019 and 2018, respectively. AEP adopted ASU 2016-01 during the first quarter of 2018 by means of a modified retrospective approach. Due to the adoption of the ASU, Other-Than-Temporary Impairments are no longer applicable to Equity Securities with readily determinable fair values.

The following table provides the securities activity within the decommissioning and SNF trusts:

|   | Years Ended December 31, |            |            |
|---|--------------------------|------------|------------|
|   | 2019                     | 2018       | 2017       |
|   | (in millions)            |            |            |
| Proceeds from Investment Sales            | \$ 1,473.0               | \$ 2,010.0 | \$ 2,256.3 |
| Purchases of Investments                  | 1,531.0                  | 2,064.7    | 2,300.5    |
| Gross Realized Gains on Investment Sales  | 76.5                     | 47.5       | 200.7      |
| Gross Realized Losses on Investment Sales | 24.3                     | 32.8       | 146.0      |

The base cost of fixed income securities was \$1.1 billion and \$1 billion as of December 31, 2019 and 2018, respectively. The base cost of equity securities was \$623 million and \$629 million as of December 31, 2019 and 2018, respectively.

The fair value of fixed income securities held in the nuclear trust funds, summarized by contractual maturities, as of December 31, 2019 was as follows:

|                                | Fair Value of Fixed<br>Income Securities |                |
|--------------------------------|--|----------------|
|                                | (in millions)                            |                |
| Within 1 year                  | \$                                       | 371.0          |
| After 1 year through 5 years   |  | 386.2          |
| After 5 years through 10 years |  | 217.3          |
| After 10 years                 |  | 218.0          |
| <b>Total</b>                   | <b>\$</b>                                | <b>1,192.5</b> |

***Fair Value Measurements of Financial Assets and Liabilities***

For a discussion of fair value accounting and the classification of assets and liabilities within the fair value hierarchy, see the “Fair Value Measurements of Assets and Liabilities” section of Note 1.

The following tables set forth, by level within the fair value hierarchy, the Registrants’ financial assets and liabilities that were accounted for at fair value on a recurring basis. As required by the accounting guidance for “Fair Value Measurements and Disclosures,” financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Management’s assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. There have not been any significant changes in management’s valuation techniques

**AEP**

**Assets and Liabilities Measured at Fair Value on a Recurring Basis  
December 31, 2019**

|  | Level 1           | Level 2           | Level 3         | Other             | Total             |
|--|-------------------|-------------------|-----------------|-------------------|-------------------|
|  | (in millions)     |                   |                 |                   |                   |
| <b>Assets:</b>   |                   |                   |                 |                   |                   |
| <b>Other Temporary Investments</b>                         |                   |                   |                 |                   |                   |
| Restricted Cash and Other Cash Deposits (a)                | \$ 197.6          | \$ —              | \$ —            | \$ 17.1           | \$ 214.7          |
| Fixed Income Securities – Mutual Funds                     | 123.3             | —                 | —               | —                 | 123.3             |
| Equity Securities – Mutual Funds (b)                       | 50.5              | —                 | —               | —                 | 50.5              |
| <b>Total Other Temporary Investments</b>                   | <b>371.4</b>      | <b>—</b>          | <b>—</b>        | <b>17.1</b>       | <b>388.5</b>      |
| <b>Risk Management Assets</b>                              |                   |                   |                 |                   |                   |
| Risk Management Commodity Contracts (c) (d)                | 4.0               | 440.1             | 369.2           | (404.5)           | 408.8             |
| Cash Flow Hedges   |                   |                   |                 |                   |                   |
| Commodity Hedges (c)                                       | —                 | 15.0              | 3.2             | (6.7)             | 11.5              |
| Interest Rate Hedges                                       | —                 | 4.6               | —               | —                 | 4.6               |
| Fair Value Hedges  | —                 | 14.5              | —               | —                 | 14.5              |
| <b>Total Risk Management Assets</b>                        | <b>4.0</b>        | <b>474.2</b>      | <b>372.4</b>    | <b>(411.2)</b>    | <b>439.4</b>      |
| <b>Spent Nuclear Fuel and Decommissioning Trusts</b>       |                   |                   |                 |                   |                   |
| Cash and Cash Equivalents (e)                              | 6.7               | —                 | —               | 8.6               | 15.3              |
| Fixed Income Securities:                                   |                   |                   |                 |                   |                   |
| United States Government                                   | —                 | 1,112.5           | —               | —                 | 1,112.5           |
| Corporate Debt   | —                 | 72.4              | —               | —                 | 72.4              |
| State and Local Government                                 | —                 | 7.6               | —               | —                 | 7.6               |
| Subtotal Fixed Income Securities                           | —                 | 1,192.5           | —               | —                 | 1,192.5           |
| Equity Securities – Domestic (b)                           | 1,767.9           | —                 | —               | —                 | 1,767.9           |
| <b>Total Spent Nuclear Fuel and Decommissioning Trusts</b> | <b>1,774.6</b>    | <b>1,192.5</b>    | <b>—</b>        | <b>8.6</b>        | <b>2,975.7</b>    |
| <b>Total Assets</b>  | <b>\$ 2,150.0</b> | <b>\$ 1,666.7</b> | <b>\$ 372.4</b> | <b>\$ (385.5)</b> | <b>\$ 3,803.6</b> |
| <b>Liabilities:</b>  |                   |                   |                 |                   |                   |
| <b>Risk Management Liabilities</b>                         |                   |                   |                 |                   |                   |
| Risk Management Commodity Contracts (c) (d)                | \$ 3.8            | \$ 450.0          | \$ 224.0        | \$ (438.8)        | \$ 239.0          |
| Cash Flow Hedges   |                   |                   |                 |                   |                   |
| Commodity Hedges (c)                                       | —                 | 105.3             | 38.5            | (6.7)             | 137.1             |
| <b>Total Risk Management Liabilities</b>                   | <b>\$ 3.8</b>     | <b>\$ 555.3</b>   | <b>\$ 262.5</b> | <b>\$ (445.5)</b> | <b>\$ 376.1</b>   |



**AEP**

**Assets and Liabilities Measured at Fair Value on a Recurring Basis  
December 31, 2018**

|  | Level 1           | Level 2           | Level 3         | Other             | Total             |
|--|-------------------|-------------------|-----------------|-------------------|-------------------|
|  | (in millions)     |                   |                 |                   |                   |
| <b>Assets:</b>   |                   |                   |                 |                   |                   |
| <b>Other Temporary Investments</b>                         |                   |                   |                 |                   |                   |
| Restricted Cash and Other Cash Deposits (a)                | \$ 221.5          | \$ —              | \$ —            | \$ 9.1            | \$ 230.6          |
| Fixed Income Securities – Mutual Funds                     | 104.3             | —                 | —               | —                 | 104.3             |
| Equity Securities – Mutual Funds (b)                       | 34.2              | —                 | —               | —                 | 34.2              |
| <b>Total Other Temporary Investments</b>                   | <b>360.0</b>      | <b>—</b>          | <b>—</b>        | <b>9.1</b>        | <b>369.1</b>      |
| <b>Risk Management Assets</b>                              |                   |                   |                 |                   |                   |
| Risk Management Commodity Contracts (c) (f)                | 3.8               | 326.5             | 340.9           | (288.5)           | 382.7             |
| Cash Flow Hedges:  |                   |                   |                 |                   |                   |
| Commodity Hedges (c)                                       | —                 | 24.1              | 12.7            | (2.7)             | 34.1              |
| <b>Total Risk Management Assets</b>                        | <b>3.8</b>        | <b>350.6</b>      | <b>353.6</b>    | <b>(291.2)</b>    | <b>416.8</b>      |
| <b>Spent Nuclear Fuel and Decommissioning Trusts</b>       |                   |                   |                 |                   |                   |
| Cash and Cash Equivalents (e)                              | 12.3              | —                 | —               | 10.2              | 22.5              |
| Fixed Income Securities:                                   |                   |                   |                 |                   |                   |
| United States Government                                   | —                 | 996.1             | —               | —                 | 996.1             |
| Corporate Debt   | —                 | 52.4              | —               | —                 | 52.4              |
| State and Local Government                                 | —                 | 8.6               | —               | —                 | 8.6               |
| Subtotal Fixed Income Securities                           | —                 | 1,057.1           | —               | —                 | 1,057.1           |
| Equity Securities – Domestic (b)                           | 1,395.3           | —                 | —               | —                 | 1,395.3           |
| <b>Total Spent Nuclear Fuel and Decommissioning Trusts</b> | <b>1,407.6</b>    | <b>1,057.1</b>    | <b>—</b>        | <b>10.2</b>       | <b>2,474.9</b>    |
| <b>Total Assets</b>  | <b>\$ 1,771.4</b> | <b>\$ 1,407.7</b> | <b>\$ 353.6</b> | <b>\$ (271.9)</b> | <b>\$ 3,260.8</b> |
| <b>Liabilities:</b>  |                   |                   |                 |                   |                   |
| <b>Risk Management Liabilities</b>                         |                   |                   |                 |                   |                   |
| Risk Management Commodity Contracts (c) (f)                | \$ 4.2            | \$ 327.0          | \$ 185.6        | \$ (274.7)        | \$ 242.1          |
| Cash Flow Hedges:  |                   |                   |                 |                   |                   |
| Commodity Hedges (c)                                       | —                 | 24.8              | 36.8            | (2.7)             | 58.9              |
| Fair Value Hedges  | —                 | 17.4              | —               | —                 | 17.4              |
| <b>Total Risk Management Liabilities</b>                   | <b>\$ 4.2</b>     | <b>\$ 369.2</b>   | <b>\$ 222.4</b> | <b>\$ (277.4)</b> | <b>\$ 318.4</b>   |

AEP Texas

Assets and Liabilities Measured at Fair Value on a Recurring Basis  
December 31, 2019

|   | Level 1       | Level 2 | Level 3 | Other | Total    |
|---|---------------|---------|---------|-------|----------|
| Assets:                                 | (in millions) |         |         |       |          |
| Restricted Cash for Securitized Funding | \$ 154.7      | \$ —    | \$ —    | \$ —  | \$ 154.7 |

December 31, 2018

|   | Level 1       | Level 2 | Level 3 | Other | Total    |
|---|---------------|---------|---------|-------|----------|
| Assets:                                 | (in millions) |         |         |       |          |
| Restricted Cash for Securitized Funding | \$ 156.7      | \$ —    | \$ —    | \$ —  | \$ 156.7 |

Liabilities:

|   |      |        |      |          |        |
|---|------|--------|------|----------|--------|
| <b>Risk Management Liabilities</b>      |      |        |      |          |        |
| Risk Management Commodity Contracts (c) | \$ — | \$ 0.7 | \$ — | \$ (0.5) | \$ 0.2 |

APCo

Assets and Liabilities Measured at Fair Value on a Recurring Basis  
December 31, 2019

|   | Level 1       | Level 2 | Level 3 | Other | Total   |
|---|---------------|---------|---------|-------|---------|
| Assets:                                 | (in millions) |         |         |       |         |
| Restricted Cash for Securitized Funding | \$ 23.5       | \$ —    | \$ —    | \$ —  | \$ 23.5 |

|   |                |                |                |                  |                |
|---|----------------|----------------|----------------|------------------|----------------|
| <b>Risk Management Assets</b>               |                |                |                |                  |                |
| Risk Management Commodity Contracts (c) (g) | —              | 84.6           | 40.5           | (85.6)           | 39.5           |
| <b>Total Assets</b>                         | <b>\$ 23.5</b> | <b>\$ 84.6</b> | <b>\$ 40.5</b> | <b>\$ (85.6)</b> | <b>\$ 63.0</b> |

Liabilities:

|   |      |         |        |           |        |
|---|------|---------|--------|-----------|--------|
| <b>Risk Management Liabilities</b>          |      |         |        |           |        |
| Risk Management Commodity Contracts (c) (g) | \$ — | \$ 84.0 | \$ 2.8 | \$ (84.9) | \$ 1.9 |

December 31, 2018

|   | Level 1       | Level 2 | Level 3 | Other | Total   |
|---|---------------|---------|---------|-------|---------|
| Assets:                                 | (in millions) |         |         |       |         |
| Restricted Cash for Securitized Funding | \$ 25.6       | \$ —    | \$ —    | \$ —  | \$ 25.6 |

|   |                |                |                |                  |                |
|---|----------------|----------------|----------------|------------------|----------------|
| <b>Risk Management Assets</b>               |                |                |                |                  |                |
| Risk Management Commodity Contracts (c) (g) | 0.1            | 59.1           | 58.3           | (59.4)           | 58.1           |
| <b>Total Assets</b>                         | <b>\$ 25.7</b> | <b>\$ 59.1</b> | <b>\$ 58.3</b> | <b>\$ (59.4)</b> | <b>\$ 83.7</b> |

Liabilities:

|   |        |         |        |           |        |
|---|--------|---------|--------|-----------|--------|
| <b>Risk Management Liabilities</b>          |        |         |        |           |        |
| Risk Management Commodity Contracts (c) (g) | \$ 0.2 | \$ 58.4 | \$ 0.5 | \$ (58.5) | \$ 0.6 |

**I&M**

**Assets and Liabilities Measured at Fair Value on a Recurring Basis  
December 31, 2019**

|  | Level 1           | Level 2           | Level 3       | Other            | Total             |
|--|-------------------|-------------------|---------------|------------------|-------------------|
|  | (in millions)     |                   |               |                  |                   |
| <b>Assets:</b>   |                   |                   |               |                  |                   |
| <b>Risk Management Assets</b>                              |                   |                   |               |                  |                   |
| Risk Management Commodity Contracts (c) (g)                | \$ —              | \$ 59.5           | \$ 8.0        | \$ (57.6)        | \$ 9.9            |
| <b>Spent Nuclear Fuel and Decommissioning Trusts</b>       |                   |                   |               |                  |                   |
| Cash and Cash Equivalents (e)                              | 6.7               | —                 | —             | 8.6              | 15.3              |
| Fixed Income Securities                                    |                   |                   |               |                  |                   |
| United States Government                                   | —                 | 1,112.5           | —             | —                | 1,112.5           |
| Corporate Debt   | —                 | 72.4              | —             | —                | 72.4              |
| State and Local Government                                 | —                 | 7.6               | —             | —                | 7.6               |
| Subtotal Fixed Income Securities                           | —                 | 1,192.5           | —             | —                | 1,192.5           |
| Equity Securities - Domestic (b)                           | 1,767.9           | —                 | —             | —                | 1,767.9           |
| <b>Total Spent Nuclear Fuel and Decommissioning Trusts</b> | <b>1,774.6</b>    | <b>1,192.5</b>    | <b>—</b>      | <b>8.6</b>       | <b>2,975.7</b>    |
| <b>Total Assets</b>  | <b>\$ 1,774.6</b> | <b>\$ 1,252.0</b> | <b>\$ 8.0</b> | <b>\$ (49.0)</b> | <b>\$ 2,985.6</b> |

**Liabilities:**

|   |      |         |        |           |        |
|---|------|---------|--------|-----------|--------|
| <b>Risk Management Liabilities</b>          |      |         |        |           |        |
| Risk Management Commodity Contracts (c) (g) | \$ — | \$ 53.4 | \$ 2.2 | \$ (55.1) | \$ 0.5 |

**December 31, 2018**

|  | Level 1           | Level 2           | Level 3        | Other            | Total             |
|--|-------------------|-------------------|----------------|------------------|-------------------|
|  | (in millions)     |                   |                |                  |                   |
| <b>Assets:</b>   |                   |                   |                |                  |                   |
| <b>Risk Management Assets</b>                              |                   |                   |                |                  |                   |
| Risk Management Commodity Contracts (c) (g)                | \$ —              | \$ 42.1           | \$ 10.3        | \$ (43.2)        | \$ 9.2            |
| <b>Spent Nuclear Fuel and Decommissioning Trusts</b>       |                   |                   |                |                  |                   |
| Cash and Cash Equivalents (e)                              | 12.3              | —                 | —              | 10.2             | 22.5              |
| Fixed Income Securities                                    |                   |                   |                |                  |                   |
| United States Government                                   | —                 | 996.1             | —              | —                | 996.1             |
| Corporate Debt   | —                 | 52.4              | —              | —                | 52.4              |
| State and Local Government                                 | —                 | 8.6               | —              | —                | 8.6               |
| Subtotal Fixed Income Securities                           | —                 | 1,057.1           | —              | —                | 1,057.1           |
| Equity Securities - Domestic (b)                           | 1,395.3           | —                 | —              | —                | 1,395.3           |
| <b>Total Spent Nuclear Fuel and Decommissioning Trusts</b> | <b>1,407.6</b>    | <b>1,057.1</b>    | <b>—</b>       | <b>10.2</b>      | <b>2,474.9</b>    |
| <b>Total Assets</b>  | <b>\$ 1,407.6</b> | <b>\$ 1,099.2</b> | <b>\$ 10.3</b> | <b>\$ (33.0)</b> | <b>\$ 2,484.1</b> |

**Liabilities:**

|   |        |         |        |           |        |
|---|--------|---------|--------|-----------|--------|
| <b>Risk Management Liabilities</b>          |        |         |        |           |        |
| Risk Management Commodity Contracts (c) (g) | \$ 0.1 | \$ 41.2 | \$ 1.4 | \$ (42.3) | \$ 0.4 |

OPCo

Assets and Liabilities Measured at Fair Value on a Recurring Basis  
December 31, 2019

|  | Level 1       | Level 2 | Level 3 | Other | Total |
|--|---------------|---------|---------|-------|-------|
|  | (in millions) |         |         |       |       |

Liabilities:

|   |      |      |          |      |          |
|---|------|------|----------|------|----------|
| <b>Risk Management Liabilities</b>          |      |      |          |      |          |
| Risk Management Commodity Contracts (c) (g) | \$ — | \$ — | \$ 103.6 | \$ — | \$ 103.6 |

December 31, 2018

|  | Level 1       | Level 2 | Level 3 | Other | Total |
|--|---------------|---------|---------|-------|-------|
|  | (in millions) |         |         |       |       |

Assets:

|   |         |      |      |      |         |
|---|---------|------|------|------|---------|
| Restricted Cash for Securitized Funding | \$ 27.6 | \$ — | \$ — | \$ — | \$ 27.6 |
|---|---------|------|------|------|---------|

Liabilities:

|   |      |        |         |          |         |
|---|------|--------|---------|----------|---------|
| <b>Risk Management Liabilities</b>          |      |        |         |          |         |
| Risk Management Commodity Contracts (c) (g) | \$ — | \$ 0.8 | \$ 99.4 | \$ (0.6) | \$ 99.6 |

PSO

Assets and Liabilities Measured at Fair Value on a Recurring Basis  
December 31, 2019

|  | Level 1       | Level 2 | Level 3 | Other | Total |
|--|---------------|---------|---------|-------|-------|
|  | (in millions) |         |         |       |       |

Assets:

|   |      |      |         |          |         |
|---|------|------|---------|----------|---------|
| <b>Risk Management Assets</b>               |      |      |         |          |         |
| Risk Management Commodity Contracts (c) (g) | \$ — | \$ — | \$ 16.3 | \$ (0.5) | \$ 15.8 |

Liabilities:

|   |      |      |        |          |      |
|---|------|------|--------|----------|------|
| <b>Risk Management Liabilities</b>          |      |      |        |          |      |
| Risk Management Commodity Contracts (c) (g) | \$ — | \$ — | \$ 0.5 | \$ (0.5) | \$ — |

December 31, 2018

|  | Level 1       | Level 2 | Level 3 | Other | Total |
|--|---------------|---------|---------|-------|-------|
|  | (in millions) |         |         |       |       |

Assets:

|   |      |      |         |          |         |
|---|------|------|---------|----------|---------|
| <b>Risk Management Assets</b>               |      |      |         |          |         |
| Risk Management Commodity Contracts (c) (g) | \$ — | \$ — | \$ 10.8 | \$ (0.4) | \$ 10.4 |

Liabilities:

|   |      |        |        |          |        |
|---|------|--------|--------|----------|--------|
| <b>Risk Management Liabilities</b>          |      |        |        |          |        |
| Risk Management Commodity Contracts (c) (g) | \$ — | \$ 0.3 | \$ 1.3 | \$ (0.6) | \$ 1.0 |

**SWEPCo**

**Assets and Liabilities Measured at Fair Value on a Recurring Basis  
December 31, 2019**

|   | Level 1       | Level 2 | Level 3 | Other    | Total  |
|---|---------------|---------|---------|----------|--------|
|   | (in millions) |         |         |          |        |
| <b>Assets:</b>                              |               |         |         |          |        |
| <b>Risk Management Assets</b>               |               |         |         |          |        |
| Risk Management Commodity Contracts (c) (g) | \$ —          | \$ —    | \$ 6.5  | \$ (0.1) | \$ 6.4 |

**Liabilities:**

|   |      |      |        |          |        |
|---|------|------|--------|----------|--------|
| <b>Risk Management Liabilities</b>          |      |      |        |          |        |
| Risk Management Commodity Contracts (c) (g) | \$ — | \$ — | \$ 5.1 | \$ (0.1) | \$ 5.0 |

**December 31, 2018**

|   | Level 1       | Level 2 | Level 3 | Other    | Total  |
|---|---------------|---------|---------|----------|--------|
|   | (in millions) |         |         |          |        |
| <b>Assets:</b>                              |               |         |         |          |        |
| <b>Risk Management Assets</b>               |               |         |         |          |        |
| Risk Management Commodity Contracts (c) (g) | \$ —          | \$ —    | \$ 5.6  | \$ (0.8) | \$ 4.8 |

**Liabilities:**

|   |      |        |        |          |        |
|---|------|--------|--------|----------|--------|
| <b>Risk Management Liabilities</b>          |      |        |        |          |        |
| Risk Management Commodity Contracts (c) (g) | \$ — | \$ 0.4 | \$ 3.3 | \$ (1.1) | \$ 2.6 |

- (a) Amounts in "Other" column primarily represent cash deposits in bank accounts with financial institutions or third-parties. Level 1 and Level 2 amounts primarily represent investments in money market funds.
- (b) Amounts represent publicly traded equity securities and equity-based mutual funds.
- (c) Amounts in "Other" column primarily represent counterparty netting of risk management and hedging contracts and associated cash collateral under the accounting guidance for "Derivatives and Hedging."
- (d) The December 31, 2019 maturity of the net fair value of risk management contracts prior to cash collateral, assets/(liabilities), is as follows: Level 2 matures \$(7) million in 2020 and \$(3) million in periods 2021-2023, Level 3 matures \$96 million in 2020, \$36 million in periods 2021-2023, \$25 million in periods 2024-2025 and \$(12) million in periods 2026-2032. Risk management commodity contracts are substantially comprised of power contracts.
- (e) Amounts in "Other" column primarily represent accrued interest receivables from financial institutions. Level 1 amounts primarily represent investments in money market funds.
- (f) The December 31, 2018 maturity of the net fair value of risk management contracts prior to cash collateral, assets/(liabilities), is as follows: Level 2 matures \$(4) million in 2019, \$1 million in periods 2020-2022, \$1 million in periods 2023-2024 and \$1 million in periods 2025-2032, Level 3 matures \$108 million in 2019, \$37 million in periods 2020-2022, \$23 million in periods 2023-2024 and \$(12) million in periods 2025-2032. Risk management commodity contracts are substantially comprised of power contracts.
- (g) Substantially comprised of power contracts for the Registrant Subsidiaries.

The following tables set forth a reconciliation of changes in the fair value of net trading derivatives classified as Level 3 in the fair value hierarchy

| Year Ended December 31, 2019   | AEP             | APCo           | I&M           | OPCo              | PSO            | SWEPCo        |
|--|-----------------|----------------|---------------|-------------------|----------------|---------------|
|  | (in millions)   |                |               |                   |                |               |
| <b>Balance as of December 31, 2018</b>   | \$ 131.2        | \$ 57.8        | \$ 8.9        | \$ (99.4)         | \$ 9.5         | \$ 2.3        |
| Realized Gain (Loss) Included in Net Income (or Changes in Net Assets) (a) (b)   | 15.8            | (13.9)         | 4.7           | (0.9)             | 13.5           | 6.0           |
| Unrealized Gain (Loss) Included in Net Income (or Changes in Net Assets) Relating to Assets Still Held at the Reporting Date (a) | (0.1)           | —              | —             | —                 | —              | —             |
| Realized and Unrealized Gains (Losses) Included in Other Comprehensive Income (c)  | (15.1)          | —              | —             | —                 | —              | —             |
| Settlements  | (117.6)         | (42.5)         | (13.0)        | 6.6               | (23.0)         | (9.6)         |
| Transfers into Level 3 (d) (e)   | (0.6)           | (0.5)          | (0.3)         | —                 | —              | —             |
| Transfers out of Level 3 (e)   | 35.6            | (0.7)          | (0.4)         | —                 | —              | —             |
| Changes in Fair Value Allocated to Regulated Jurisdictions (f)   | 60.7            | 37.5           | 5.9           | (9.9)             | 15.8           | 2.7           |
| <b>Balance as of December 31, 2019</b>   | <u>\$ 109.9</u> | <u>\$ 37.7</u> | <u>\$ 5.8</u> | <u>\$ (103.6)</u> | <u>\$ 15.8</u> | <u>\$ 1.4</u> |
| Year Ended December 31, 2018   | AEP             | APCo           | I&M           | OPCo              | PSO            | SWEPCo        |
|  | (in millions)   |                |               |                   |                |               |
| <b>Balance as of December 31, 2017</b>   | \$ 40.3         | \$ 24.7        | \$ 7.6        | \$ (132.4)        | \$ 6.2         | \$ 5.9        |
| Realized Gain (Loss) Included in Net Income (or Changes in Net Assets) (a) (b)   | 148.9           | 104.1          | 14.2          | 1.8               | 18.1           | (4.8)         |
| Unrealized Gain (Loss) Included in Net Income (or Changes in Net Assets) Relating to Assets Still Held at the Reporting Date (a) | 9.8             | —              | —             | —                 | —              | —             |
| Realized and Unrealized Gains (Losses) Included in Other Comprehensive Income (c)  | 15.7            | —              | —             | —                 | —              | —             |
| Settlements  | (214.0)         | (127.9)        | (21.3)        | 4.6               | (24.3)         | (2.1)         |
| Transfers into Level 3 (d) (e)   | 15.8            | —              | —             | —                 | —              | —             |
| Transfers out of Level 3 (e)   | (1.6)           | —              | (0.3)         | —                 | —              | —             |
| Changes in Fair Value Allocated to Regulated Jurisdictions (f)   | 116.3           | 56.9           | 8.7           | 26.6              | 9.5            | 3.3           |
| <b>Balance as of December 31, 2018</b>   | <u>\$ 131.2</u> | <u>\$ 57.8</u> | <u>\$ 8.9</u> | <u>\$ (99.4)</u>  | <u>\$ 9.5</u>  | <u>\$ 2.3</u> |
| Year Ended December 31, 2017   | AEP             | APCo           | I&M           | OPCo              | PSO            | SWEPCo        |
|  | (in millions)   |                |               |                   |                |               |
| <b>Balance as of December 31, 2016</b>   | \$ 2.5          | \$ 1.4         | \$ 2.8        | \$ (119.0)        | \$ 0.7         | \$ 0.7        |
| Realized Gain (Loss) Included in Net Income (or Changes in Net Assets) (a) (b)   | 37.3            | 17.2           | 4.0           | (1.4)             | 3.1            | 6.0           |
| Unrealized Gain (Loss) Included in Net Income (or Changes in Net Assets) Relating to Assets Still Held at the Reporting Date (a) | 33.6            | —              | —             | —                 | —              | —             |
| Realized and Unrealized Gains (Losses) Included in Other Comprehensive Income (c)  | (18.8)          | —              | —             | —                 | —              | —             |
| Settlements  | (50.6)          | (18.9)         | (7.1)         | 7.4               | (3.8)          | (6.8)         |
| Transfers into Level 3 (d) (e)   | 16.2            | —              | —             | —                 | —              | —             |
| Transfers out of Level 3 (e)   | (10.1)          | —              | —             | —                 | —              | —             |
| Changes in Fair Value Allocated to Regulated Jurisdictions (f)   | 30.2            | 25.0           | 7.9           | (19.4)            | 6.2            | 6.0           |
| <b>Balance as of December 31, 2017</b>   | <u>\$ 40.3</u>  | <u>\$ 24.7</u> | <u>\$ 7.6</u> | <u>\$ (132.4)</u> | <u>\$ 6.2</u>  | <u>\$ 5.9</u> |

- (a) Included in revenues on the statements of income  
(b) Represents the change in fair value between the beginning of the reporting period and the settlement of the risk management commodity contract  
(c) Included in cash flow hedges on the statements of comprehensive income  
(d) Represents existing assets or liabilities that were previously categorized as Level 2  
(e) Transfers are recognized based on their value at the beginning of the reporting period that the transfer occurred  
(f) Relates to the net gains (losses) of those contracts that are not reflected on the statements of income. These net gains (losses) are recorded as regulatory

assets/liabilities or accounts payable.

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The following tables quantify the significant unobservable inputs used in developing the fair value of Level 3 positions:

**Significant Unobservable Inputs  
December 31, 2019**

**AEP**

|                       | Fair Value      |                 | Valuation<br>Technique | Significant<br>Unobservable<br>Input | Input/Range |           |                         |
|-----------------------|-----------------|-----------------|------------------------|--------------------------------------|-------------|-----------|-------------------------|
|                       | Assets          | Liabilities     |                        |                                      | Low         | High      | Weighted<br>Average (c) |
|                       | (in millions)   |                 |                        |                                      |             |           |                         |
| Energy Contracts      | \$ 296.7        | \$ 249.3        | Discounted Cash Flow   | Forward Market Price (a)             | \$ (0.05)   | \$ 177.30 | \$ 31.31                |
| Natural Gas Contracts | —               | 4.9             | Discounted Cash Flow   | Forward Market Price (b)             | 1.89        | 2.51      | 2.19                    |
| FTRs                  | 75.7            | 8.3             | Discounted Cash Flow   | Forward Market Price (a)             | (8.52)      | 9.34      | 0.42                    |
| <b>Total</b>          | <u>\$ 372.4</u> | <u>\$ 262.5</u> |                        |                                      |             |           |                         |

**December 31, 2018**

|                       | Fair Value      |                 | Valuation<br>Technique | Significant<br>Unobservable<br>Input | Input/Range |           |                         |
|-----------------------|-----------------|-----------------|------------------------|--------------------------------------|-------------|-----------|-------------------------|
|                       | Assets          | Liabilities     |                        |                                      | Low         | High      | Weighted<br>Average (c) |
|                       | (in millions)   |                 |                        |                                      |             |           |                         |
| Energy Contracts      | \$ 257.1        | \$ 212.5        | Discounted Cash Flow   | Forward Market Price (a)             | \$ (0.05)   | \$ 176.57 | \$ 33.07                |
| Natural Gas Contracts | —               | 2.5             | Discounted Cash Flow   | Forward Market Price (b)             | 2.18        | 3.54      | 2.47                    |
| FTRs                  | 96.5            | 7.4             | Discounted Cash Flow   | Forward Market Price (a)             | (11.68)     | 17.79     | 1.09                    |
| <b>Total</b>          | <u>\$ 353.6</u> | <u>\$ 222.4</u> |                        |                                      |             |           |                         |



**APCo**

**Significant Unobservable Inputs  
December 31, 2019**

|                  | Fair Value     |               | Valuation<br>Technique  | Significant<br>Unobservable<br>Input (a) | Input/Range |          |                         |
|------------------|----------------|---------------|-------------------------|--|-------------|----------|-------------------------|
|                  | Assets         | Liabilities   |                         |  | Low         | High     | Weighted<br>Average (c) |
|                  | (in millions)  |               |                         |  |             |          |                         |
| Energy Contracts | \$ 5.7         | \$ 2.6        | Discounted Cash<br>Flow | Forward Market<br>Price                  | \$ 12.70    | \$ 41.20 | \$ 25.92                |
| FTRs             | 34.8           | 0.2           | Discounted Cash<br>Flow | Forward Market<br>Price                  | (0.14)      | 7.08     | 1.70                    |
| <b>Total</b>     | <b>\$ 40.5</b> | <b>\$ 2.8</b> |                         |  |             |          |                         |

**December 31, 2018**

|                  | Fair Value     |               | Valuation<br>Technique  | Significant<br>Unobservable<br>Input (a) | Input/Range |          |                         |
|------------------|----------------|---------------|-------------------------|--|-------------|----------|-------------------------|
|                  | Assets         | Liabilities   |                         |  | Low         | High     | Weighted<br>Average (c) |
|                  | (in millions)  |               |                         |  |             |          |                         |
| Energy Contracts | \$ 2.4         | \$ 0.5        | Discounted Cash<br>Flow | Forward Market<br>Price                  | \$ 16.82    | \$ 62.65 | \$ 37.00                |
| FTRs             | 55.9           | —             | Discounted Cash<br>Flow | Forward Market<br>Price                  | 0.10        | 15.16    | 3.27                    |
| <b>Total</b>     | <b>\$ 58.3</b> | <b>\$ 0.5</b> |                         |  |             |          |                         |

**I&M**

**Significant Unobservable Inputs  
December 31, 2019**

|                  | Fair Value    |               | Valuation<br>Technique  | Significant<br>Unobservable<br>Input (a) | Input/Range |          |                         |
|------------------|---------------|---------------|-------------------------|--|-------------|----------|-------------------------|
|                  | Assets        | Liabilities   |                         |  | Low         | High     | Weighted<br>Average (c) |
|                  | (in millions) |               |                         |  |             |          |                         |
| Energy Contracts | \$ 3.4        | \$ 1.5        | Discounted Cash<br>Flow | Forward Market<br>Price                  | \$ 12.70    | \$ 41.20 | \$ 25.92                |
| FTRs             | 4.6           | 0.7           | Discounted Cash<br>Flow | Forward Market<br>Price                  | (0.75)      | 4.07     | 0.74                    |
| <b>Total</b>     | <b>\$ 8.0</b> | <b>\$ 2.2</b> |                         |  |             |          |                         |

**December 31, 2018**

|                  | Fair Value     |               | Valuation<br>Technique  | Significant<br>Unobservable<br>Input (a) | Input/Range |          |                         |
|------------------|----------------|---------------|-------------------------|--|-------------|----------|-------------------------|
|                  | Assets         | Liabilities   |                         |  | Low         | High     | Weighted<br>Average (c) |
|                  | (in millions)  |               |                         |  |             |          |                         |
| Energy Contracts | \$ 1.4         | \$ 0.9        | Discounted Cash<br>Flow | Forward Market<br>Price                  | \$ 16.82    | \$ 62.65 | \$ 37.00                |
| FTRs             | 8.9            | 0.5           | Discounted Cash<br>Flow | Forward Market<br>Price                  | (2.11)      | 6.21     | 1.06                    |
| <b>Total</b>     | <b>\$ 10.3</b> | <b>\$ 1.4</b> |                         |  |             |          |                         |



**OPCo**

**Significant Unobservable Inputs  
December 31, 2019**

|                  | Fair Value    |             | Valuation<br>Technique  | Significant<br>Unobservable<br>Input (a) | Input/Range |          |                         |
|------------------|---------------|-------------|-------------------------|--|-------------|----------|-------------------------|
|                  | Assets        | Liabilities |                         |  | Low         | High     | Weighted<br>Average (c) |
|                  | (in millions) |             |                         |  |             |          |                         |
| Energy Contracts | \$ —          | \$ 103.6    | Discounted Cash<br>Flow | Forward Market<br>Price                  | \$ 29.23    | \$ 61.43 | \$ 42.46                |

**December 31, 2018**

|                  | Fair Value    |             | Valuation<br>Technique  | Significant<br>Unobservable<br>Input (a) | Input/Range |          |                         |
|------------------|---------------|-------------|-------------------------|--|-------------|----------|-------------------------|
|                  | Assets        | Liabilities |                         |  | Low         | High     | Weighted<br>Average (c) |
|                  | (in millions) |             |                         |  |             |          |                         |
| Energy Contracts | \$ —          | \$ 99.4     | Discounted Cash<br>Flow | Forward Market<br>Price                  | \$ 26.29    | \$ 62.74 | \$ 42.50                |

**PSO**

**Significant Unobservable Inputs  
December 31, 2019**

|      | Fair Value    |             | Valuation<br>Technique  | Significant<br>Unobservable<br>Input (a) | Input/Range |         |                         |
|------|---------------|-------------|-------------------------|--|-------------|---------|-------------------------|
|      | Assets        | Liabilities |                         |  | Low         | High    | Weighted<br>Average (c) |
|      | (in millions) |             |                         |  |             |         |                         |
| FTRs | \$ 16.3       | \$ 0.5      | Discounted Cash<br>Flow | Forward Market<br>Price                  | \$ (8.52)   | \$ 0.85 | \$ (2.31)               |

**December 31, 2018**

|      | Fair Value    |             | Valuation<br>Technique  | Significant<br>Unobservable<br>Input (a) | Input/Range |          |                         |
|------|---------------|-------------|-------------------------|--|-------------|----------|-------------------------|
|      | Assets        | Liabilities |                         |  | Low         | High     | Weighted<br>Average (c) |
|      | (in millions) |             |                         |  |             |          |                         |
| FTRs | \$ 10.8       | \$ 1.3      | Discounted Cash<br>Flow | Forward Market<br>Price                  | \$ (11.68)  | \$ 10.30 | \$ (1.40)               |

**SWEPCo**

**Significant Unobservable Inputs  
December 31, 2019**

|                          | Fair Value    |               | Valuation<br>Technique  | Significant<br>Unobservable<br>Input | Input/Range |         |                         |
|--------------------------|---------------|---------------|-------------------------|--------------------------------------|-------------|---------|-------------------------|
|                          | Assets        | Liabilities   |                         |                                      | Low         | High    | Weighted<br>Average (c) |
|                          | (in millions) |               |                         |                                      |             |         |                         |
| Natural Gas<br>Contracts | \$ —          | \$ 4.9        | Discounted Cash<br>Flow | Forward Market<br>Price (b)          | \$ 1.89     | \$ 2.51 | \$ 2.18                 |
| FTRs                     | 6.5           | 0.2           | Discounted Cash<br>Flow | Forward Market<br>Price (a)          | (8.52)      | 0.85    | (2.31)                  |
| <b>Total</b>             | <b>\$ 6.5</b> | <b>\$ 5.1</b> |                         |                                      |             |         |                         |

**December 31, 2018**

|                          | Fair Value    |               | Valuation<br>Technique  | Significant<br>Unobservable<br>Input | Input/Range |         |                         |
|--------------------------|---------------|---------------|-------------------------|--------------------------------------|-------------|---------|-------------------------|
|                          | Assets        | Liabilities   |                         |                                      | Low         | High    | Weighted<br>Average (c) |
|                          | (in millions) |               |                         |                                      |             |         |                         |
| Natural Gas<br>Contracts | \$ —          | \$ 2.5        | Discounted Cash<br>Flow | Forward Market<br>Price (b)          | \$ 2.18     | \$ 3.54 | \$ 2.47                 |
| FTRs                     | 5.6           | 0.8           | Discounted Cash<br>Flow | Forward Market<br>Price (a)          | (11.68)     | 10.30   | (1.40)                  |
| <b>Total</b>             | <b>\$ 5.6</b> | <b>\$ 3.3</b> |                         |                                      |             |         |                         |

- (a) Represents market prices in dollars per MWh.  
(b) Represents market prices in dollars per MMBtu.  
(c) The weighted average is the product of the forward market price of the underlying commodity and volume weighted by term.

The following table provides the measurement uncertainty of fair value measurements to increases (decreases) in significant unobservable inputs related to Energy Contracts, Natural Gas Contracts and FTRs for the Registrants as of December 31, 2019 and 2018:

**Uncertainty of Fair Value Measurements**

| Significant Unobservable Input | Position | Change in Input     | Impact on Fair Value<br>Measurement |
|--------------------------------|----------|---------------------|-------------------------------------|
| Forward Market Price           | Buy      | Increase (Decrease) | Higher (Lower)                      |
| Forward Market Price           | Sell     | Increase (Decrease) | Lower (Higher)                      |

## 12. INCOME TAXES

The disclosures in this note apply to all Registrants unless indicated otherwise.

### Income Tax Expense (Benefit)

The details of the Registrants' Income Tax Expense (Benefit) as reported are as follows:

| Year Ended December 31, 2019        | AEP              | AEP Texas        | AEPTCo          | APCo             | I&M              | OPCo            | PSO            | SWEPCo          |
|-------------------------------------|------------------|------------------|-----------------|------------------|------------------|-----------------|----------------|-----------------|
|                                     | (in millions)    |                  |                 |                  |                  |                 |                |                 |
| <b>Federal:</b>                     |                  |                  |                 |                  |                  |                 |                |                 |
| Current                             | \$ (7.4)         | \$ (31.8)        | \$ 23.7         | \$ 36.7          | \$ 48.1          | \$ (10.0)       | \$ 25.5        | \$ 6.9          |
| Deferred                            | (77.1)           | (23.5)           | 71.7            | (125.6)          | (53.5)           | 40.6            | (23.6)         | (8.6)           |
| Deferred Investment Tax Credits     | 5.5              | (1.2)            | —               | (0.5)            | (3.6)            | —               | (2.4)          | (1.4)           |
| <b>Total Federal</b>                | <u>(79.0)</u>    | <u>(56.5)</u>    | <u>95.4</u>     | <u>(89.4)</u>    | <u>(9.0)</u>     | <u>30.6</u>     | <u>(0.5)</u>   | <u>(3.1)</u>    |
| <b>State and Local:</b>             |                  |                  |                 |                  |                  |                 |                |                 |
| Current                             | 4.4              | 2.9              | 2.4             | 12.0             | (2.4)            | 1.1             | 0.2            | 0.8             |
| Deferred                            | 59.3             | —                | 19.6            | (0.6)            | 0.8              | 3.2             | 5.4            | (2.4)           |
| Deferred Investment Tax Credits     | 2.4              | —                | —               | —                | —                | —               | 2.4            | —               |
| <b>Total State and Local</b>        | <u>66.1</u>      | <u>2.9</u>       | <u>22.0</u>     | <u>11.4</u>      | <u>(1.6)</u>     | <u>4.3</u>      | <u>8.0</u>     | <u>(1.6)</u>    |
| <b>Income Tax Expense (Benefit)</b> | <u>\$ (12.9)</u> | <u>\$ (53.6)</u> | <u>\$ 117.4</u> | <u>\$ (78.0)</u> | <u>\$ (10.6)</u> | <u>\$ 34.9</u>  | <u>\$ 7.5</u>  | <u>\$ (4.7)</u> |
| Year Ended December 31, 2018        | AEP              | AEP Texas        | AEPTCo          | APCo             | I&M              | OPCo            | PSO            | SWEPCo          |
|                                     | (in millions)    |                  |                 |                  |                  |                 |                |                 |
| <b>Federal:</b>                     |                  |                  |                 |                  |                  |                 |                |                 |
| Current                             | \$ (31.7)        | \$ 37.0          | \$ (14.2)       | \$ (31.9)        | \$ 60.9          | \$ 55.6         | \$ 35.6        | \$ 18.3         |
| Deferred                            | 112.8            | (16.4)           | 82.3            | (24.6)           | (44.1)           | (36.9)          | (34.7)         | (0.5)           |
| Deferred Investment Tax Credits     | 9.2              | (1.5)            | —               | 0.1              | (4.7)            | —               | (2.0)          | (1.4)           |
| <b>Total Federal</b>                | <u>90.3</u>      | <u>19.1</u>      | <u>68.1</u>     | <u>(56.4)</u>    | <u>12.1</u>      | <u>18.7</u>     | <u>(1.1)</u>   | <u>16.4</u>     |
| <b>State and Local:</b>             |                  |                  |                 |                  |                  |                 |                |                 |
| Current                             | 30.8             | 1.8              | (0.6)           | 3.7              | 15.8             | 4.6             | (0.2)          | 2.3             |
| Deferred                            | (8.5)            | (0.1)            | 16.6            | 7.8              | 1.2              | 0.7             | 3.6            | 1.7             |
| Deferred Investment Tax Credits     | 2.7              | —                | —               | —                | —                | —               | 2.7            | —               |
| <b>Total State and Local</b>        | <u>25.0</u>      | <u>1.7</u>       | <u>16.0</u>     | <u>11.5</u>      | <u>17.0</u>      | <u>5.3</u>      | <u>6.1</u>     | <u>4.0</u>      |
| <b>Income Tax Expense (Benefit)</b> | <u>\$ 115.3</u>  | <u>\$ 20.8</u>   | <u>\$ 84.1</u>  | <u>\$ (44.9)</u> | <u>\$ 29.1</u>   | <u>\$ 24.0</u>  | <u>\$ 5.0</u>  | <u>\$ 20.4</u>  |
| Year Ended December 31, 2017        | AEP              | AEP Texas        | AEPTCo          | APCo             | I&M              | OPCo            | PSO            | SWEPCo          |
|                                     | (in millions)    |                  |                 |                  |                  |                 |                |                 |
| <b>Federal:</b>                     |                  |                  |                 |                  |                  |                 |                |                 |
| Current                             | \$ (4.0)         | \$ (85.7)        | \$ (130.4)      | \$ 15.3          | \$ (106.5)       | \$ 11.2         | \$ (77.1)      | \$ (30.1)       |
| Deferred                            | 856.6            | 63.3             | 254.8           | 166.9            | 202.1            | 141.3           | 122.7          | 84.8            |
| Deferred Investment Tax Credits     | 48.6             | (1.6)            | —               | (0.1)            | (4.7)            | —               | (1.6)          | (1.4)           |
| <b>Total Federal</b>                | <u>901.2</u>     | <u>(24.0)</u>    | <u>124.4</u>    | <u>182.1</u>     | <u>90.9</u>      | <u>152.5</u>    | <u>44.0</u>    | <u>53.3</u>     |
| <b>State and Local:</b>             |                  |                  |                 |                  |                  |                 |                |                 |
| Current                             | 16.0             | 0.6              | 1.1             | (1.4)            | (8.1)            | 0.2             | (0.2)          | (0.9)           |
| Deferred                            | 44.9             | —                | 16.7            | 4.6              | (1.4)            | 6.6             | 2.0            | (4.3)           |
| Deferred Investment Tax Credits     | 7.6              | —                | —               | —                | —                | —               | 4.3            | —               |
| <b>Total State and Local</b>        | <u>68.5</u>      | <u>0.6</u>       | <u>17.8</u>     | <u>3.2</u>       | <u>(9.5)</u>     | <u>6.8</u>      | <u>6.1</u>     | <u>(5.2)</u>    |
| <b>Income Tax Expense (Benefit)</b> | <u>\$ 969.7</u>  | <u>\$ (23.4)</u> | <u>\$ 142.2</u> | <u>\$ 185.3</u>  | <u>\$ 81.4</u>   | <u>\$ 159.3</u> | <u>\$ 50.1</u> | <u>\$ 48.1</u>  |



The following are reconciliations for the Registrants between the federal income taxes computed by multiplying pretax income by the federal statutory tax rate and the income taxes reported:

**AEP**

|   | Years Ended December 31, |                   |                   |
|---|--------------------------|-------------------|-------------------|
|   | 2019                     | 2018              | 2017              |
|   | (in millions)            |                   |                   |
| Net Income  | \$ 1,919.8               | \$ 1,931.3        | \$ 1,928.9        |
| Less: Equity Earnings – Dolet Hills   | (3.0)                    | (2.7)             | —                 |
| Income Tax Expense (Benefit)  | (12.9)                   | 115.3             | 969.7             |
| <b>Pretax Income</b>  | <b>\$ 1,903.9</b>        | <b>\$ 2,043.9</b> | <b>\$ 2,898.6</b> |
| Income Taxes on Pretax Income at Statutory Rate (21%, 21% and 35% in 2019, 2018 and 2017, Respectively) | \$ 399.8                 | \$ 429.2          | \$ 1,014.5        |
| Increase (Decrease) in Income Taxes Resulting from the Following Items:                                 |                          |                   |                   |
| Depreciation  | 23.1                     | 24.4              | 60.2              |
| Investment Tax Credit Amortization  | (13.0)                   | (20.2)            | (18.8)            |
| Production Tax Credits  | (59.0)                   | (10.3)            | —                 |
| State and Local Income Taxes, Net   | 52.2                     | 19.7              | 54.7              |
| Removal Costs   | (20.7)                   | (19.8)            | (32.7)            |
| AFUDC   | (37.1)                   | (29.4)            | (37.4)            |
| Valuation Allowance   | —                        | —                 | (1.8)             |
| Tax Reform Adjustments  | —                        | (10.9)            | (26.7)            |
| Tax Adjustments   | —                        | —                 | (35.8)            |
| Tax Reform Excess ADIT Reversal   | (353.2)                  | (257.2)           | —                 |
| Other   | (5.0)                    | (10.2)            | (6.5)             |
| <b>Income Tax Expense (Benefit)</b>   | <b>\$ (12.9)</b>         | <b>\$ 115.3</b>   | <b>\$ 969.7</b>   |
| <b>Effective Income Tax Rate</b>  | <b>(0.7) %</b>           | <b>5.6 %</b>      | <b>33.5 %</b>     |

**AEP Texas**

|   | Years Ended December 31, |                 |                  |
|---|--------------------------|-----------------|------------------|
|   | 2019                     | 2018            | 2017             |
|   | (in millions)            |                 |                  |
| Net Income  | \$ 178.3                 | \$ 211.3        | \$ 310.5         |
| Income Tax Expense (Benefit)  | (53.6)                   | 20.8            | (23.4)           |
| <b>Pretax Income</b>  | <b>\$ 124.7</b>          | <b>\$ 232.1</b> | <b>\$ 287.1</b>  |
| Income Taxes on Pretax Income at Statutory Rate (21%, 21% and 35% in 2019, 2018 and 2017, Respectively) | \$ 26.2                  | \$ 48.7         | \$ 100.5         |
| Increase (Decrease) in Income Taxes Resulting from the Following Items:                                 |                          |                 |                  |
| Depreciation  | 1.0                      | 1.4             | (0.5)            |
| Investment Tax Credit Amortization  | (1.2)                    | (2.3)           | (1.5)            |
| State and Local Income Taxes, Net   | 2.3                      | 1.3             | 0.4              |
| AFUDC   | (3.2)                    | (4.2)           | (3.9)            |
| Parent Company Loss Benefit   | (4.6)                    | (3.1)           | —                |
| Tax Reform Adjustments  | —                        | (11.0)          | (117.4)          |
| Tax Adjustments   | —                        | —               | (4.2)            |
| Tax Reform Excess ADIT Reversal   | (73.4)                   | (11.8)          | —                |
| Other   | (0.7)                    | 1.8             | 3.2              |
| <b>Income Tax Expense (Benefit)</b>   | <b>\$ (53.6)</b>         | <b>\$ 20.8</b>  | <b>\$ (23.4)</b> |
| <b>Effective Income Tax Rate</b>  | <b>(43.0) %</b>          | <b>9.0 %</b>    | <b>(8.2) %</b>   |

**AEPTCo**

|   | Years Ended December 31, |                 |                 |
|---|--------------------------|-----------------|-----------------|
|   | 2019                     | 2018            | 2017            |
|   | (in millions)            |                 |                 |
| Net Income  | \$ 439.7                 | \$ 315.9        | \$ 270.7        |
| Income Tax Expense  | 117.4                    | 84.1            | 142.2           |
| <b>Pretax Income</b>  | <b>\$ 557.1</b>          | <b>\$ 400.0</b> | <b>\$ 412.9</b> |
| Income Taxes on Pretax Income at Statutory Rate (21%, 21% and 35% in 2019, 2018 and 2017, Respectively) | \$ 117.0                 | \$ 84.0         | \$ 144.5        |
| Increase (Decrease) in Income Taxes Resulting from the Following Items:                                 |                          |                 |                 |
| AFUDC   | (17.7)                   | (14.1)          | (17.0)          |
| State and Local Income Taxes, Net   | 17.4                     | 12.6            | 13.1            |
| Tax Reform Adjustments  | —                        | —               | 0.6             |
| Other   | 0.7                      | 1.6             | 1.0             |
| <b>Income Tax Expense</b>   | <b>\$ 117.4</b>          | <b>\$ 84.1</b>  | <b>\$ 142.2</b> |
| <b>Effective Income Tax Rate</b>  | <b>21.1 %</b>            | <b>21.0 %</b>   | <b>34.4 %</b>   |

**APCo**

|   | Years Ended December 31, |                  |                 |
|---|--------------------------|------------------|-----------------|
|   | 2019                     | 2018             | 2017            |
|   | (in millions)            |                  |                 |
| Net Income  | \$ 306.3                 | \$ 367.8         | \$ 331.3        |
| Income Tax Expense (Benefit)  | (78.0)                   | (44.9)           | 185.3           |
| <b>Pretax Income</b>  | <b>\$ 228.3</b>          | <b>\$ 322.9</b>  | <b>\$ 516.6</b> |
| Income Taxes on Pretax Income at Statutory Rate (21%, 21% and 35% in 2019, 2018 and 2017, Respectively) | \$ 47.9                  | \$ 67.8          | \$ 180.8        |
| Increase (Decrease) in Income Taxes Resulting from the Following Items:                                 |                          |                  |                 |
| Depreciation  | 11.7                     | 8.5              | 18.0            |
| State and Local Income Taxes, Net   | 9.0                      | 9.1              | 3.5             |
| Removal Costs   | (6.1)                    | (9.6)            | (12.4)          |
| AFUDC   | (5.2)                    | (4.3)            | (5.0)           |
| Parent Company Loss Benefit   | (3.8)                    | (3.4)            | (0.2)           |
| Tax Reform Adjustments  | —                        | 0.1              | 4.3             |
| Tax Reform Excess ADIT Reversal   | (130.4)                  | (108.5)          | —               |
| Other   | (1.1)                    | (4.6)            | (3.7)           |
| <b>Income Tax Expense (Benefit)</b>   | <b>\$ (78.0)</b>         | <b>\$ (44.9)</b> | <b>\$ 185.3</b> |
| <b>Effective Income Tax Rate</b>  | <b>(34.2) %</b>          | <b>(13.9) %</b>  | <b>35.9 %</b>   |



**I&M**

|   | Years Ended December 31, |                 |                 |
|---|--------------------------|-----------------|-----------------|
|   | 2019                     | 2018            | 2017            |
|   | (in millions)            |                 |                 |
| Net Income  | \$ 269.4                 | \$ 261.3        | \$ 186.7        |
| Income Tax Expense (Benefit)  | (10.6)                   | 29.1            | 81.4            |
| <b>Pretax Income</b>  | <b>\$ 258.8</b>          | <b>\$ 290.4</b> | <b>\$ 268.1</b> |
| Income Taxes on Pretax Income at Statutory Rate (21%, 21% and 35% in 2019, 2018 and 2017, Respectively) | \$ 54.3                  | \$ 61.0         | \$ 93.8         |
| Increase (Decrease) in Income Taxes Resulting from the Following Items                                  |                          |                 |                 |
| Depreciation  | 6.3                      | (0.7)           | 11.4            |
| Investment Tax Credit Amortization  | (3.6)                    | (4.7)           | (4.7)           |
| State and Local Income Taxes, Net   | (1.2)                    | 13.4            | (1.0)           |
| Removal Costs   | (11.5)                   | (8.0)           | (13.3)          |
| AFUDC   | (4.1)                    | (2.5)           | (5.6)           |
| Parent Company Loss Benefit   | (4.8)                    | (2.3)           | —               |
| Tax Adjustments   | —                        | —               | 2.7             |
| Tax Reform Adjustments  | —                        | —               | (2.9)           |
| Tax Reform Excess ADIT Reversal   | (42.5)                   | (25.8)          | —               |
| Other   | (3.5)                    | (1.3)           | 1.0             |
| <b>Income Tax Expense (Benefit)</b>   | <b>\$ (10.6)</b>         | <b>\$ 29.1</b>  | <b>\$ 81.4</b>  |
| <b>Effective Income Tax Rate</b>  | <b>(4.1) %</b>           | <b>10.0 %</b>   | <b>30.4 %</b>   |

**OPCo**

|   | Years Ended December 31, |                 |                 |
|---|--------------------------|-----------------|-----------------|
|   | 2019                     | 2018            | 2017            |
|   | (in millions)            |                 |                 |
| Net Income  | \$ 297.1                 | \$ 325.5        | \$ 323.9        |
| Income Tax Expense  | 34.9                     | 24.0            | 159.3           |
| <b>Pretax Income</b>  | <b>\$ 332.0</b>          | <b>\$ 349.5</b> | <b>\$ 483.2</b> |
| Income Taxes on Pretax Income at Statutory Rate (21%, 21% and 35% in 2019, 2018 and 2017, Respectively) | \$ 69.7                  | \$ 73.4         | \$ 169.1        |
| Increase (Decrease) in Income Taxes Resulting from the Following Items                                  |                          |                 |                 |
| Depreciation  | (1.7)                    | 2.6             | 7.6             |
| State and Local Income Taxes, Net   | 3.4                      | 4.2             | 4.4             |
| AFUDC   | (3.8)                    | (2.1)           | (2.2)           |
| Tax Reform Adjustments  | —                        | —               | (14.4)          |
| Tax Reform Excess ADIT Reversal   | (27.3)                   | (51.0)          | —               |
| Parent Company Loss Benefit   | (4.9)                    | (5.5)           | (0.2)           |
| Other   | (0.5)                    | 2.4             | (5.0)           |
| <b>Income Tax Expense</b>   | <b>\$ 34.9</b>           | <b>\$ 24.0</b>  | <b>\$ 159.3</b> |
| <b>Effective Income Tax Rate</b>  | <b>10.5 %</b>            | <b>6.9 %</b>    | <b>33.0 %</b>   |

**PSO**

|   | Years Ended December 31, |                |                 |
|---|--------------------------|----------------|-----------------|
|   | 2019                     | 2018           | 2017            |
|   | (in millions)            |                |                 |
| Net Income  | \$ 137.6                 | \$ 83.2        | \$ 72.0         |
| Income Tax Expense  | 7.5                      | 5.0            | 50.1            |
| <b>Pretax Income</b>  | <b>\$ 145.1</b>          | <b>\$ 88.2</b> | <b>\$ 122.1</b> |
| Income Taxes on Pretax Income at Statutory Rate (21%, 21% and 35% in 2019, 2018 and 2017, Respectively) | \$ 30.5                  | \$ 18.5        | \$ 42.7         |
| Increase (Decrease) in Income Taxes Resulting from the Following Items                                  |                          |                |                 |
| Depreciation  | 0.5                      | 1.0            | 0.3             |
| Investment Tax Credit Amortization  | (0.5)                    | (1.7)          | (1.6)           |
| Parent Company Loss Benefit   | (2.5)                    | (1.4)          | —               |
| State and Local Income Taxes, Net   | 6.3                      | 4.8            | 4.0             |
| Tax Reform Adjustments  | —                        | —              | 2.8             |
| Tax Reform Excess ADIT Reversal   | (24.5)                   | (15.5)         | —               |
| Other   | (2.3)                    | (0.7)          | 1.9             |
| <b>Income Tax Expense</b>   | <b>\$ 7.5</b>            | <b>\$ 5.0</b>  | <b>\$ 50.1</b>  |
| <b>Effective Income Tax Rate</b>  | <b>5.2 %</b>             | <b>5.7 %</b>   | <b>41.0 %</b>   |

**SWEP Co**

|   | Years Ended December 31, |                 |                 |
|---|--------------------------|-----------------|-----------------|
|   | 2019                     | 2018            | 2017            |
|   | (in millions)            |                 |                 |
| Net Income  | \$ 162.2                 | \$ 152.2        | \$ 137.5        |
| Less: Equity Earnings – Dolet Hills   | (3.0)                    | (2.7)           | —               |
| Income Tax Expense (Benefit)  | (4.7)                    | 20.4            | 48.1            |
| <b>Pretax Income</b>  | <b>\$ 154.5</b>          | <b>\$ 169.9</b> | <b>\$ 185.6</b> |
| Income Taxes on Pretax Income at Statutory Rate (21%, 21% and 35% in 2019, 2018 and 2017, Respectively) | \$ 32.4                  | \$ 35.7         | \$ 65.0         |
| Increase (Decrease) in Income Taxes Resulting from the Following Items:                                 |                          |                 |                 |
| Depreciation  | 1.9                      | 3.4             | 1.9             |
| Depletion   | (3.6)                    | (3.2)           | (5.7)           |
| State and Local Income Taxes, Net   | (1.3)                    | 3.2             | (2.3)           |
| AFUDC   | (1.4)                    | (1.3)           | (0.9)           |
| Tax Adjustments   | —                        | —               | (9.9)           |
| Tax Reform Adjustments  | —                        | —               | (0.4)           |
| Tax Reform Excess ADIT Reversal   | (29.9)                   | (16.0)          | —               |
| Other   | (2.8)                    | (1.4)           | 0.4             |
| <b>Income Tax Expense (Benefit)</b>   | <b>\$ (4.7)</b>          | <b>\$ 20.4</b>  | <b>\$ 48.1</b>  |
| <b>Effective Income Tax Rate</b>  | <b>(3.0) %</b>           | <b>12.0 %</b>   | <b>25.9 %</b>   |

**Net Deferred Tax Liability**

The following tables show elements of the net deferred tax liability and significant temporary differences for each Registrant

**AEP**

|  | December 31,        |                     |
|--|---------------------|---------------------|
|  | 2019                | 2018                |
|  | (in millions)       |                     |
| Deferred Tax Assets                              | \$ 3,246.1          | \$ 2,750.8          |
| Deferred Tax Liabilities                         | (10,834.3)          | (9,837.3)           |
| <b>Net Deferred Tax Liabilities</b>              | <b>\$ (7,588.2)</b> | <b>\$ (7,086.5)</b> |
| Property Related Temporary Differences           | \$ (6,602.9)        | \$ (6,224.8)        |
| Amounts Due to Customers for Future Income Taxes | 1,173.5             | 1,329.7             |
| Deferred State Income Taxes                      | (1,112.4)           | (1,072.5)           |
| Securitized Assets                               | (178.7)             | (186.6)             |
| Regulatory Assets                                | (371.1)             | (454.1)             |
| Accrued Nuclear Decommissioning                  | (557.4)             | (453.7)             |
| Net Operating Loss Carryforward                  | 77.6                | 78.3                |
| Tax Credit Carryforward                          | 247.2               | 113.7               |
| Operating Lease Liability                        | 182.6               | —                   |
| Investment in Partnership                        | (446.6)             | (300.5)             |
| All Other, Net                                   | —                   | 84.0                |
| <b>Net Deferred Tax Liabilities</b>              | <b>\$ (7,588.2)</b> | <b>\$ (7,086.5)</b> |

**AEP Texas**

|  | December 31,      |                   |
|--|-------------------|-------------------|
|  | 2019              | 2018              |
|  | (in millions)     |                   |
| Deferred Tax Assets                              | \$ 220.0          | \$ 208.1          |
| Deferred Tax Liabilities                         | (1,185.4)         | (1,121.2)         |
| <b>Net Deferred Tax Liabilities</b>              | <b>\$ (965.4)</b> | <b>\$ (913.1)</b> |
| Property Related Temporary Differences           | \$ (973.5)        | \$ (836.3)        |
| Amounts Due to Customers for Future Income Taxes | 126.7             | 141.2             |
| Deferred State Income Taxes                      | (27.5)            | (27.7)            |
| Regulatory Assets                                | (51.2)            | (53.9)            |
| Securitized Transition Assets                    | (124.3)           | (134.7)           |
| Deferred Revenues                                | 19.9              | 4.6               |
| Operating Lease Liability                        | 17.2              | —                 |
| All Other, Net                                   | 47.3              | (6.3)             |
| <b>Net Deferred Tax Liabilities</b>              | <b>\$ (965.4)</b> | <b>\$ (913.1)</b> |

**AEPTCo**

|  | December 31,      |                   |
|--|-------------------|-------------------|
|  | 2019              | 2018              |
|  | (in millions)     |                   |
| Deferred Tax Assets                              | \$ 162.9          | \$ 142.9          |
| Deferred Tax Liabilities                         | (980.7)           | (847.3)           |
| <b>Net Deferred Tax Liabilities</b>              | <b>\$ (817.8)</b> | <b>\$ (704.4)</b> |
| Property Related Temporary Differences           | \$ (847.1)        | \$ (755.0)        |
| Amounts Due to Customers for Future Income Taxes | 119.9             | 121.3             |
| Deferred State Income Taxes                      | (86.1)            | (71.6)            |
| Net Operating Loss Carryforward                  | 12.3              | 13.4              |
| All Other, Net                                   | (16.8)            | (12.5)            |
| <b>Net Deferred Tax Liabilities</b>              | <b>\$ (817.8)</b> | <b>\$ (704.4)</b> |

**APCo**

|  | December 31,        |                     |
|--|---------------------|---------------------|
|  | 2019                | 2018                |
|  | (in millions)       |                     |
| Deferred Tax Assets                              | \$ 486.2            | \$ 475.2            |
| Deferred Tax Liabilities                         | (2,167.0)           | (2,101.0)           |
| <b>Net Deferred Tax Liabilities</b>              | <b>\$ (1,680.8)</b> | <b>\$ (1,625.8)</b> |
| Property Related Temporary Differences           | \$ (1,420.0)        | \$ (1,393.6)        |
| Amounts Due to Customers for Future Income Taxes | 222.8               | 268.0               |
| Deferred State Income Taxes                      | (320.9)             | (324.1)             |
| Regulatory Assets                                | (71.0)              | (73.8)              |
| Securitized Assets                               | (49.3)              | (54.3)              |
| Operating Lease Liability                        | 16.5                | —                   |
| All Other, Net                                   | (58.9)              | (48.0)              |
| <b>Net Deferred Tax Liabilities</b>              | <b>\$ (1,680.8)</b> | <b>\$ (1,625.8)</b> |

**I&M**

|  | December 31,      |                   |
|--|-------------------|-------------------|
|  | 2019              | 2018              |
|  | (in millions)     |                   |
| Deferred Tax Assets                              | \$ 970.5          | \$ 771.6          |
| Deferred Tax Liabilities                         | (1,950.2)         | (1,719.6)         |
| <b>Net Deferred Tax Liabilities</b>              | <b>\$ (979.7)</b> | <b>\$ (948.0)</b> |
| Property Related Temporary Differences           | \$ (430.7)        | \$ (445.0)        |
| Amounts Due to Customers for Future Income Taxes | 169.6             | 186.2             |
| Deferred State Income Taxes                      | (194.4)           | (183.9)           |
| Accrued Nuclear Decommissioning                  | (557.4)           | (453.7)           |
| Regulatory Assets                                | (26.9)            | (31.9)            |
| Net Operating Loss Carryforward                  | —                 | 0.2               |
| Operating Lease Liability                        | 61.9              | —                 |
| All Other, Net                                   | (1.8)             | (19.9)            |
| <b>Net Deferred Tax Liabilities</b>              | <b>\$ (979.7)</b> | <b>\$ (948.0)</b> |



**OPCo**

|  | December 31,      |                   |
|--|-------------------|-------------------|
|  | 2019              | 2018              |
|  | (in millions)     |                   |
| Deferred Tax Assets                              | \$ 202.3          | \$ 209.0          |
| Deferred Tax Liabilities                         | (1,051.6)         | (972.3)           |
| <b>Net Deferred Tax Liabilities</b>              | <b>\$ (849.3)</b> | <b>\$ (763.3)</b> |
| Property Related Temporary Differences           | \$ (890.8)        | \$ (826.9)        |
| Amounts Due to Customers for Future Income Taxes | 130.2             | 137.0             |
| Deferred State Income Taxes                      | (35.5)            | (32.9)            |
| Regulatory Assets                                | (48.0)            | (55.0)            |
| Operating Lease Liability                        | 18.3              | —                 |
| All Other, Net                                   | (23.5)            | 14.5              |
| <b>Net Deferred Tax Liabilities</b>              | <b>\$ (849.3)</b> | <b>\$ (763.3)</b> |

**PSO**

|  | December 31,      |                   |
|--|-------------------|-------------------|
|  | 2019              | 2018              |
|  | (in millions)     |                   |
| Deferred Tax Assets                              | \$ 257.4          | \$ 229.6          |
| Deferred Tax Liabilities                         | (885.7)           | (837.4)           |
| <b>Net Deferred Tax Liabilities</b>              | <b>\$ (628.3)</b> | <b>\$ (607.8)</b> |
| Property Related Temporary Differences           | \$ (627.6)        | \$ (609.4)        |
| Amounts Due to Customers for Future Income Taxes | 127.2             | 138.9             |
| Deferred State Income Taxes                      | (100.4)           | (135.6)           |
| Regulatory Assets                                | (44.6)            | (32.3)            |
| Net Operating Loss Carryforward                  | 10.2              | 16.4              |
| All Other, Net                                   | 6.9               | 14.2              |
| <b>Net Deferred Tax Liabilities</b>              | <b>\$ (628.3)</b> | <b>\$ (607.8)</b> |

**SWEPCo**

|  | December 31,      |                   |
|--|-------------------|-------------------|
|  | 2019              | 2018              |
|  | (in millions)     |                   |
| Deferred Tax Assets                              | \$ 359.6          | \$ 317.4          |
| Deferred Tax Liabilities                         | (1,300.5)         | (1,220.2)         |
| <b>Net Deferred Tax Liabilities</b>              | <b>\$ (940.9)</b> | <b>\$ (902.8)</b> |
| Property Related Temporary Differences           | \$ (947.6)        | \$ (913.3)        |
| Amounts Due to Customers for Future Income Taxes | 169.8             | 183.4             |
| Deferred State Income Taxes                      | (200.3)           | (193.6)           |
| Regulatory Assets                                | (30.2)            | (30.8)            |
| Net Operating Loss Carryforward                  | 38.2              | 36.2              |
| All Other, Net                                   | 29.2              | 15.3              |
| <b>Net Deferred Tax Liabilities</b>              | <b>\$ (940.9)</b> | <b>\$ (902.8)</b> |

***AEP System Tax Allocation Agreement***

AEP and subsidiaries join in the filing of a consolidated federal income tax return. The allocation of the AEP System's current consolidated federal income tax to the AEP System companies allocates the benefit of current tax losses ("Parent Company Loss Benefit") to the AEP System companies giving rise to such losses in determining their current tax expense. The consolidated net operating loss of the AEP System is allocated to each company in the consolidated group with taxable losses. The tax benefit of the Parent is allocated to its subsidiaries with taxable income. With the exception of the allocation of the consolidated AEP System net operating loss, the loss of the Parent and tax credits, the method of allocation reflects a separate return result for each company in the consolidated group.

***Federal and State Income Tax Audit Status***

AEP and subsidiaries are no longer subject to U.S. federal examination by the IRS for all years through 2015. During the third quarter of 2019, AEP and subsidiaries elected to amend the 2014 and 2015 federal returns and as such the IRS may examine only the amended items on the 2014 and 2015 federal returns.

***Net Income Tax Operating Loss Carryforward***

As of December 31, 2019, AEP has no federal net income tax operating loss carryforward. AEP, AEPTCo, I&M, PSO and SWEPCo have state net income tax operating loss carryforwards as indicated in the table below:

| Company | State/Municipality | State Net Income<br>Tax Operating<br>Loss<br>Carryforward |       | Years of<br>Expiration |   |      |
|---------|--------------------|---|-------|------------------------|---|------|
|         |                    | (in millions)   |       |                        |   |      |
| AEP     | Arkansas           | \$  | 102.5 | 2020                   | - | 2024 |
| AEP     | Kentucky           |   | 144.9 | 2030                   | - | 2037 |
| AEP     | Louisiana          |   | 541.0 | 2025                   | - | 2039 |
| AEP     | Oklahoma           |   | 544.1 | 2034                   | - | 2037 |
| AEP     | Tennessee          |   | 29.0  | 2028                   | - | 2034 |
| AEP     | Virginia           |   | 22.6  | 2030                   | - | 2037 |
| AEP     | West Virginia      |   | 16.1  | 2029                   | - | 2037 |
| AEP     | Ohio Municipal     |   | 414.1 | 2020                   | - | 2024 |
| AEPTCo  | Oklahoma           |   | 269.4 | 2034                   | - | 2037 |
| AEPTCo  | Ohio Municipal     |   | 37.3  | 2020                   | - | 2023 |
| I&M     | West Virginia      |   | 2.0   | 2031                   | - | 2037 |
| PSO     | Oklahoma           |   | 240.5 | 2034                   | - | 2037 |
| SWEPCo  | Arkansas           |   | 101.7 | 2021                   | - | 2024 |
| SWEPCo  | Louisiana          |   | 528.1 | 2032                   | - | 2037 |

As of December 31, 2019, AEP has recorded a valuation allowance of \$6 million, against certain state and municipal net income tax operating loss carryforwards since future taxable income is not expected to be sufficient to realize the remaining state net income tax operating loss tax benefits before the carryforward expires. Management anticipates future taxable income will be sufficient to realize the remaining state net income tax operating loss tax benefits before the carryforward expires for each state.

***Tax Credit Carryforward***

Federal and state net income tax operating losses sustained in 2017, 2012 and 2011 resulted in unused federal and state income tax credits. As of December 31, 2019, the Registrants have federal tax credit carryforwards and AEP and PSO have state tax credit carryforwards as indicated in the table below. If these credits are not utilized, federal general business tax credits will expire in the years 2031 through 2039.

| Company       | Total Federal<br>Tax Credit<br>Carryforward | Federal Tax<br>Credit<br>Carryforward<br>Subject to<br>Expiration | Total State<br>Tax Credit<br>Carryforward | State Tax<br>Credit<br>Carryforward<br>Subject to<br>Expiration |
|---------------|---|---|---|---|
| (in millions) |   |   |   |   |
| AEP           | \$ 247.2                                    | \$ 239.6  | \$ 36.7                                   | \$ —  |
| AEP Texas     | 1.4   | 1.3   | —   | —   |
| AEPTCo        | 0.2   | 0.1   | —   | —   |
| APCo          | 4.9   | 2.3   | —   | —   |
| I&M           | 13.9  | 13.7  | —   | —   |
| OPCo          | 5.1   | 1.7   | —   | —   |
| PSO           | 1.1   | 1.1   | 36.7                                      | —   |
| SWEPCo        | 1.9   | 1.8   | —   | —   |

The Registrants anticipate future federal taxable income will be sufficient to realize the tax benefits of the federal tax credits before they expire unused.

***Valuation Allowance***

AEP assesses the available positive and negative evidence to estimate whether sufficient future taxable income of the appropriate tax character will be generated to realize the benefits of existing deferred tax assets. When the evaluation of the evidence indicates that AEP will not be able to realize the benefits of existing deferred tax assets, a valuation allowance is recorded to reduce existing deferred tax assets to the net realizable amount. Objective evidence evaluated includes whether AEP has a history of recognizing income of the character which can be offset by loss carryforwards. Other objective negative evidence evaluated is the impact recently enacted federal tax legislation will have on future taxable income and on AEP's ability to benefit from the carryforward of charitable contribution deductions.

Valuation allowance activity for the years ended December 31, 2019, 2018 and 2017 was immaterial.



**Uncertain Tax Positions**

The reconciliations of the beginning and ending amounts of unrecognized tax benefits are as follows:

|   | AEP            | AEP Texas       | AEPTCo      | APCo        | I&M           | OPCo          | PSO         | SWEPCo          |
|---|----------------|-----------------|-------------|-------------|---------------|---------------|-------------|-----------------|
|   | (in millions)  |                 |             |             |               |               |             |                 |
| <b>Balance as of January 1, 2019</b>                      | \$ 14.6        | \$ (0.8)        | \$ —        | \$ —        | \$ 3.2        | \$ 6.9        | \$ —        | \$ (0.8)        |
| Increase – Tax Positions Taken During a Prior Period      | 8.8            | 1.5             | —           | —           | —             | 1.6           | —           | 0.8             |
| Decrease – Tax Positions Taken During a Prior Period      | (2.1)          | (0.7)           | —           | —           | (0.7)         | —             | —           | —               |
| Increase – Tax Positions Taken During the Current Year    | 2.8            | —               | —           | —           | —             | —             | —           | —               |
| Decrease – Tax Positions Taken During the Current Year    | —              | —               | —           | —           | —             | —             | —           | —               |
| Decrease – Settlements with Taxing Authorities            | —              | —               | —           | —           | —             | —             | —           | —               |
| Decrease – Lapse of the Applicable Statute of Limitations | —              | —               | —           | —           | —             | —             | —           | —               |
| <b>Balance as of December 31, 2019</b>                    | <u>\$ 24.1</u> | <u>\$ —</u>     | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 2.5</u> | <u>\$ 8.5</u> | <u>\$ —</u> | <u>\$ —</u>     |
|   | AEP            | AEP Texas       | AEPTCo      | APCo        | I&M           | OPCo          | PSO         | SWEPCo          |
|   | (in millions)  |                 |             |             |               |               |             |                 |
| <b>Balance as of January 1, 2018</b>                      | \$ 86.6        | \$ (0.8)        | \$ —        | \$ —        | \$ 3.2        | \$ 6.9        | \$ —        | \$ (0.8)        |
| Increase – Tax Positions Taken During a Prior Period      | 0.1            | —               | —           | —           | —             | —             | —           | —               |
| Decrease – Tax Positions Taken During a Prior Period      | —              | —               | —           | —           | —             | —             | —           | —               |
| Increase – Tax Positions Taken During the Current Year    | —              | —               | —           | —           | —             | —             | —           | —               |
| Decrease – Tax Positions Taken During the Current Year    | —              | —               | —           | —           | —             | —             | —           | —               |
| Decrease – Settlements with Taxing Authorities            | (71.0)         | —               | —           | —           | —             | —             | —           | —               |
| Decrease – Lapse of the Applicable Statute of Limitations | (1.1)          | —               | —           | —           | —             | —             | —           | —               |
| <b>Balance as of December 31, 2018</b>                    | <u>\$ 14.6</u> | <u>\$ (0.8)</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 3.2</u> | <u>\$ 6.9</u> | <u>\$ —</u> | <u>\$ (0.8)</u> |
|   | AEP            | AEP Texas       | AEPTCo      | APCo        | I&M           | OPCo          | PSO         | SWEPCo          |
|   | (in millions)  |                 |             |             |               |               |             |                 |
| <b>Balance as of January 1, 2017</b>                      | \$ 98.8        | \$ 6.5          | \$ —        | \$ —        | \$ 3.8        | \$ 6.9        | \$ 0.1      | \$ 1.3          |
| Increase – Tax Positions Taken During a Prior Period      | 4.5            | 2.0             | —           | —           | 0.2           | —             | 0.1         | 1.7             |
| Decrease – Tax Positions Taken During a Prior Period      | (28.0)         | (12.3)          | —           | —           | (0.5)         | —             | (0.9)       | (5.4)           |
| Increase – Tax Positions Taken During the Current Year    | 3.4            | —               | —           | —           | —             | —             | —           | —               |
| Decrease – Tax Positions Taken During the Current Year    | —              | —               | —           | —           | —             | —             | —           | —               |
| Decrease – Settlements with Taxing Authorities            | 7.9            | 3.0             | —           | —           | (0.3)         | —             | 0.7         | 1.6             |
| Decrease – Lapse of the Applicable Statute of Limitations | —              | —               | —           | —           | —             | —             | —           | —               |
| <b>Balance as of December 31, 2017</b>                    | <u>\$ 86.6</u> | <u>\$ (0.8)</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 3.2</u> | <u>\$ 6.9</u> | <u>\$ —</u> | <u>\$ (0.8)</u> |

Management believes that there will be no significant net increase or decrease in unrecognized benefits within 12 months of the reporting date. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate for each Registrant was as follows:

| Company   | 2019          | 2018    | 2017    |
|-----------|---------------|---------|---------|
|           | (in millions) |         |         |
| AEP       | \$ 20.3       | \$ 11.6 | \$ 10.5 |
| AEP Texas | —             | (0.7)   | (0.5)   |
| AEPTCo    | —             | —       | —       |
| APCo      | —             | —       | —       |
| I&M       | 2.0           | 2.6     | 2.1     |
| OPCo      | 6.7           | 5.4     | 4.5     |
| PSO       | —             | —       | —       |
| SWEPCo    | —             | (0.6)   | (0.5)   |

#### ***Federal Tax Reform and Legislation***

In December 2017, Tax Reform legislation was signed into law. Tax Reform included significant changes to the Internal Revenue Code of 1986, as amended, including lowering the corporate federal income tax rate from 35% to 21%.

The IRS has issued new regulations that provide guidance regarding the additional first-year depreciation deduction under Section 168(k). The proposed regulations reflect changes as a result of Tax Reform and affect taxpayers with qualified depreciable property acquired and placed in-service after September 27, 2017. Generally, AEP's regulated utilities will not be eligible for any bonus depreciation for property acquired and placed in-service after December 31, 2017 and AEP's competitive businesses will be eligible for 100% expensing.

During the fourth quarter of 2018, the IRS proposed new regulations that reflect changes as a result of Tax Reform concerning potential limitations on the deduction of business interest expense. These regulations require an allocation of net interest expense between regulated and competitive businesses within the consolidated tax return. This allocation is based upon net tax basis, and the proposed regulations provide a de minimis test under which all interest is deductible if less than 10% is allocable to the competitive businesses. Management continues to review and evaluate the proposed regulations and at this time expect to be able to deduct materially all business interest expense under this de minimis provision.

#### ***State Tax Legislation***

In April 2018, the Kentucky legislature enacted House Bill (H.B.) 487. H.B. 487 adopts mandatory unitary combined reporting for state corporate income tax purposes applicable for taxable years beginning on or after January 1, 2019. H.B. 487 also adopts the 80% federal net operating loss (NOL) limitation under Internal Revenue Code Section 172(a) for NOLs generated after January 1, 2018 and the federal unlimited carryforward period for unused NOLs generated after January 1, 2018. In addition, H.B. 366 was also enacted in April 2018, which among other things, replaces the graduated corporate tax rate structure with a flat 5% tax rate for business income and adopts a single-sales factor apportionment formula for apportioning a corporation's business income to Kentucky. In the second quarter of 2018, AEP recorded an \$18 million benefit to Income Tax Expense as a result of remeasuring Kentucky deferred taxes under a unitary filing group. The enacted legislation did not materially impact AEPTCo's, I&M's or OPCo's net income.

### 13. LEASES

The disclosures in this note apply to all Registrants unless indicated otherwise.

The Registrants lease property, plant and equipment including, but not limited to, fleet, information technology and real estate leases. These leases require payments of non-lease components, including related property taxes, operating and maintenance costs. As of the adoption date of ASU 2016-02, management elected not to separate non-lease components from associated lease components in accordance with the accounting guidance for “Leases.” Many of these leases have purchase or renewal options. Leases not renewed are often replaced by other leases. Options to renew or purchase a lease are included in the measurement of lease assets and liabilities if it is reasonably certain the Registrant will exercise the option.

Lease obligations are measured using the discount rate implicit in the lease when that rate is readily determinable. AEP has visibility into the rate implicit in the lease when assets are leased from selected financial institutions under master leasing agreements. When the implicit rate is not readily determinable, the Registrants measure their lease obligation using their estimated secured incremental borrowing rate. Incremental borrowing rates are comprised of an underlying risk free rate and a secured credit spread relative to the lessee on a matched maturity basis.

Operating lease rentals and finance lease amortization costs are generally charged to Other Operation and Maintenance expense in accordance with rate-making treatment for regulated operations. Effective in 2019, interest on finance lease liabilities is generally charged to Interest Expense. Finance lease interest for periods prior to 2019 were charged to Other Operation and Maintenance expense. Lease costs associated with capital projects are included in Property, Plant and Equipment on the balance sheets. For regulated operations with finance leases, a finance lease asset and offsetting liability are recorded at the present value of the remaining lease payments for each reporting period. Finance leases for nonregulated property are accounted for as if the assets were owned and financed. The components of rental costs were as follows:

| Year Ended December 31, 2019        | AEP             | AEP Texas      | AEPTCo        | APCo           | I&M             | OPCo           | PSO            | SWEPCo         |
|-------------------------------------|-----------------|----------------|---------------|----------------|-----------------|----------------|----------------|----------------|
|                                     | (in millions)   |                |               |                |                 |                |                |                |
| Operating Lease Cost                | \$ 286.0        | \$ 16.5        | \$ 2.5        | \$ 19.5        | \$ 93.1         | \$ 18.0        | \$ 6.8         | \$ 8.0         |
| Finance Lease Cost                  |                 |                |               |                |                 |                |                |                |
| Amortization of Right-of-Use Assets | 70.8            | 5.1            | 0.1           | 6.7            | 5.7             | 3.5            | 3.1            | 11.0           |
| Interest on Lease Liabilities       | 16.4            | 1.4            | —             | 2.9            | 2.9             | 0.7            | 0.6            | 2.9            |
| <b>Total Lease Rental Costs (a)</b> | <b>\$ 373.2</b> | <b>\$ 23.0</b> | <b>\$ 2.6</b> | <b>\$ 29.1</b> | <b>\$ 101.7</b> | <b>\$ 22.2</b> | <b>\$ 10.5</b> | <b>\$ 21.9</b> |
| Year Ended December 31, 2018        | AEP             | AEP Texas      | AEPTCo        | APCo           | I&M             | OPCo           | PSO            | SWEPCo         |
|                                     | (in millions)   |                |               |                |                 |                |                |                |
| Operating Lease Cost                | \$ 245.0        | \$ 13.6        | \$ 2.7        | \$ 18.2        | \$ 89.2         | \$ 10.7        | \$ 5.7         | \$ 6.5         |
| Finance Lease Cost                  |                 |                |               |                |                 |                |                |                |
| Amortization of Right-of-Use Assets | 62.4            | 4.8            | 0.1           | 7.0            | 6.6             | 3.9            | 3.2            | 11.2           |
| Interest on Lease Liabilities       | 16.4            | 1.2            | —             | 3.0            | 3.3             | 0.5            | 0.4            | 3.2            |
| <b>Total Lease Rental Costs</b>     | <b>\$ 323.8</b> | <b>\$ 19.6</b> | <b>\$ 2.8</b> | <b>\$ 28.2</b> | <b>\$ 99.1</b>  | <b>\$ 15.1</b> | <b>\$ 9.3</b>  | <b>\$ 20.9</b> |
| Year Ended December 31, 2017        | AEP             | AEP Texas      | AEPTCo        | APCo           | I&M             | OPCo           | PSO            | SWEPCo         |
|                                     | (in millions)   |                |               |                |                 |                |                |                |
| Operating Lease Cost                | \$ 231.3        | \$ 10.5        | \$ 1.7        | \$ 17.5        | \$ 88.4         | \$ 8.2         | \$ 4.4         | \$ 5.3         |
| Finance Lease Cost                  |                 |                |               |                |                 |                |                |                |
| Amortization of Right-of-Use Assets | 66.3            | 4.0            | —             | 6.9            | 11.1            | 4.1            | 4.0            | 11.2           |
| Interest on Lease Liabilities       | 16.7            | 0.8            | —             | 3.7            | 3.2             | 0.5            | 0.6            | 3.6            |
| <b>Total Lease Rental Costs</b>     | <b>\$ 314.3</b> | <b>\$ 15.3</b> | <b>\$ 1.7</b> | <b>\$ 28.1</b> | <b>\$ 102.7</b> | <b>\$ 12.8</b> | <b>\$ 9.0</b>  | <b>\$ 20.1</b> |

(a) Excludes variable and short-term lease costs, which were immaterial for the twelve months ended December 31, 2019.

Supplemental information related to leases are shown in the tables below.

| December 31, 2019  | AEP      | AEP<br>Texas | AEPTCo | APCo    | I&M     | OPCo    | PSO    | SWEPCo  |
|--|----------|--------------|--------|---------|---------|---------|--------|---------|
| <b>Weighted-Average Remaining Lease Term (years):</b>                          |          |              |        |         |         |         |        |         |
| Operating Leases   | 5.23     | 6.93         | 2.25   | 6.28    | 3.91    | 7.94    | 7.07   | 6.64    |
| Finance Leases   | 5.85     | 6.69         | 0.25   | 6.12    | 6.55    | 6.49    | 6.23   | 5.16    |
| <b>Weighted-Average Discount Rate:</b>   |          |              |        |         |         |         |        |         |
| Operating Leases   | 3.60%    | 3.77%        | 3.14%  | 3.64%   | 3.45%   | 3.76%   | 3.64%  | 3.76%   |
| Finance Leases   | 5.98%    | 4.62%        | 9.33%  | 8.08%   | 8.47%   | 4.54%   | 4.62%  | 5.01%   |
| Year Ended December 31, 2019   | AEP      | AEP<br>Texas | AEPTCo | APCo    | I&M     | OPCo    | PSO    | SWEPCo  |
| <b>(in millions)</b>   |          |              |        |         |         |         |        |         |
| <b>Cash paid for amounts included in the measurement of lease liabilities:</b> |          |              |        |         |         |         |        |         |
| Operating Cash Flows Used for Operating Leases                                 | \$ 284.7 | \$ 15.3      | \$ 2.4 | \$ 19.0 | \$ 94.3 | \$ 18.0 | \$ 6.7 | \$ 7.9  |
| Operating Cash Flows Used for Finance Leases                                   | 16.4     | 1.4          | —      | 2.9     | 3.1     | 0.7     | 0.6    | 3.0     |
| Financing Cash Flows Used for Finance Leases                                   | 70.7     | 5.1          | —      | 6.7     | 5.7     | 3.5     | 3.1    | 11.0    |
| Non-cash Acquisitions Under Operating Leases                                   | \$ 125.0 | \$ 13.8      | \$ 0.6 | \$ 10.2 | \$ 18.7 | \$ 35.4 | \$ 8.2 | \$ 11.4 |

The following tables show property, plant and equipment under finance leases and noncurrent assets under operating leases and related obligations recorded on the balance sheets. Unless shown as a separate line on the balance sheets due to materiality, net operating lease assets are included in Deferred Charges and Other Noncurrent Assets, current finance lease obligations are included in Other Current Liabilities and long-term finance lease obligations are included in Deferred Credits and Other Noncurrent Liabilities on the balance sheets. Lease obligations are not recognized on the balance sheets for lease agreements with a lease term of less than twelve months.

| December 31, 2019   | AEP             | AEP<br>Texas   | AEPTCo        | APCo           | I&M            | OPCo           | PSO            | SWEPCo         |
|---|-----------------|----------------|---------------|----------------|----------------|----------------|----------------|----------------|
| <b>(in millions)</b>  |                 |                |               |                |                |                |                |                |
| <b>Property, Plant and Equipment Under Finance Leases:</b>    |                 |                |               |                |                |                |                |                |
| Generation  | \$ 131.6        | \$ —           | \$ —          | \$ 39.9        | \$ 28.8        | \$ —           | \$ 0.6         | \$ 34.1        |
| Other Property, Plant and Equipment                           | 323.0           | 45.9           | 0.2           | 18.9           | 39.3           | 27.3           | 21.6           | 51.6           |
| Total Property, Plant and Equipment                           | 454.6           | 45.9           | 0.2           | 58.8           | 68.1           | 27.3           | 22.2           | 85.7           |
| Accumulated Amortization                                      | 151.5           | 11.8           | 0.2           | 17.0           | 23.0           | 7.2            | 7.1            | 28.4           |
| <b>Net Property, Plant and Equipment Under Finance Leases</b> | <b>\$ 303.1</b> | <b>\$ 34.1</b> | <b>\$ —</b>   | <b>\$ 41.8</b> | <b>\$ 45.1</b> | <b>\$ 20.1</b> | <b>\$ 15.1</b> | <b>\$ 57.3</b> |
| <b>Obligations Under Finance Leases:</b>                      |                 |                |               |                |                |                |                |                |
| Noncurrent Liability  | \$ 249.2        | \$ 28.2        | \$ —          | \$ 35.0        | \$ 38.8        | \$ 16.2        | \$ 11.9        | \$ 47.1        |
| Liability Due Within One Year                                 | 57.6            | 5.9            | —             | 6.8            | 6.3            | 3.9            | 3.2            | 10.5           |
| <b>Total Obligations Under Finance Leases</b>                 | <b>\$ 306.8</b> | <b>\$ 34.1</b> | <b>\$ —</b>   | <b>\$ 41.8</b> | <b>\$ 45.1</b> | <b>\$ 20.1</b> | <b>\$ 15.1</b> | <b>\$ 57.6</b> |
| December 31, 2018   | AEP             | AEP<br>Texas   | AEPTCo        | APCo           | I&M            | OPCo           | PSO            | SWEPCo         |
| <b>(in millions)</b>  |                 |                |               |                |                |                |                |                |
| <b>Property, Plant and Equipment Under Finance Leases:</b>    |                 |                |               |                |                |                |                |                |
| Generation  | \$ 131.3        | \$ —           | \$ —          | \$ 38.7        | \$ 27.0        | \$ —           | \$ 2.6         | \$ 34.3        |
| Other Property, Plant and Equipment                           | 373.9           | 38.8           | 0.2           | 17.3           | 33.3           | 20.4           | 17.6           | 119.8          |
| Total Property, Plant and Equipment                           | 505.2           | 38.8           | 0.2           | 56.0           | 60.3           | 20.4           | 20.2           | 154.1          |
| Accumulated Amortization                                      | 226.4           | 10.3           | 0.1           | 16.2           | 21.6           | 8.3            | 7.9            | 99.9           |
| <b>Net Property, Plant and Equipment Under Finance Leases</b> | <b>\$ 278.8</b> | <b>\$ 28.5</b> | <b>\$ 0.1</b> | <b>\$ 39.8</b> | <b>\$ 38.7</b> | <b>\$ 12.1</b> | <b>\$ 12.3</b> | <b>\$ 54.2</b> |
| <b>Obligations Under Finance Leases:</b>                      |                 |                |               |                |                |                |                |                |
| Noncurrent Liability  | \$ 233.5        | \$ 24.0        | \$ —          | \$ 33.7        | \$ 33.4        | \$ 9.2         | \$ 9.5         | \$ 50.6        |